Precision Capital S.A.
15, boulevard Roosevelt
L-2450 Luxembourg

R.C.S. Luxembourg: B 121.640

Consolidated accounts, Independent auditor's report and Consolidated management report as at 31 December 2015

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The quantitative tables in the following pages may sometimes show small differences due to the use of concealed decimals. These differences, however, do not in any way affect the true and fair view of the consolidated accounts of the Group.

Similarly, the value zero "0" in the following tables indicates the presence of a number after the decimal, while "-" represents the value nil.

PRECISION CAPITAL S.A.
Public Company

Registered office: 15, boulevard Roosevelt L-2450 LUXEMBOURG
R.C.S. LUXEMBOURG B-121.640

CONSOLIDATED MANAGEMENT REPORT

General comments on the result

The net consolidated profit, group share, for the year ended 31 December 2015 amounts to EUR 98.7 million compared to EUR 133.8 million for the year ended 31 December 2014.

The balance sheet amounts to EUR 32.7 billion as at 31 December 2015 (EUR 33.1 billion as at 31 December 2014).

As at 31 December 2015, Precision Capital's Tier One capital after deductions and including result of the period (calculated in accordance with EU Parliament & Council, Capital Requirement Regulation (CRR 2013/575), defining capital ratios under Basel III), amounts to EUR 1,547 million and the consolidated solvency ratio on Tier One equity stands to 16.42%.

Risk analysis

Risk management is assumed at the level of each of the two sub-groups owned by Precision Capital (KBL European Private Bankers S.A. ("KBL epb") and Banque Internationale à Luxembourg S.A. ("BIL") owned for 99.91% and 89.93% respectively). Quantitative and qualitative information relating to BIL and KBL epb local risk management are reported in the respective consolidated accounts of these subsidiaries.

Furthermore, and as required by applicable regulation, KBL epb and BIL publish relevant information on a quarterly basis in order to comply with the main requirements of the LMI Circular 96/125.

Other information

During the year ended 31 December 2015, Precision Capital and its subsidiaries did not acquire any treasury shares and did not have any Research and Development activity.

George Nasra
Chief Executive Officer

Luxembourg, 31 May 2016

Building a better
working world

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Independent auditor's report

To the shareholders of
Precision Capital S.A.
15, boulevard Roosevelt
L-2450 Luxembourg

Report on the consolidated accounts

Following our appointment by the shareholders, we have audited the accompanying consolidated accounts of Precision Capital S.A., which comprise the consolidated balance sheet as of 31 December 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated accounts

The Board of Directors is responsible for the preparation and fair presentation of these consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated accounts give a true and fair view of the financial position of Precision Capital S.A. as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated accounts.

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Alain Kinsch

Luxembourg, 31 May 2016

Precision Capital S.A.

Consolidated income statement
For the year ended 31 December 2015
(in EUR thousands)

	Notes	31/12/2015	31/12/2014
Net interest income	3	366,731	343,658
Dividend income	4	3,898	11,663
Net gains on financial instruments measured at fair value through profit or loss	5	44,898	53,816
Net gains on financial assets and liabilities not measured at fair value through profit or loss	6	63,772	113,968
Net fee and commission income	7	506,165	504,495
Other net income	8	23,528	2,049
GROSS INCOME		**1,008,992**	**1,029,650**
Operating expenses	9,34	-851,429	-803,315
Staff expenses	*10,29,30*	*-514,692*	*-477,950*
General administrative expenses	*38*	*-259,131*	*-235,388*
Other	*26,27,28*	*-77,606*	*-89,977*
Impairment	11,20,21,26	-21,843	-23,798
Share of profit of associates	12,25	3,726	3,601
PROFIT BEFORE TAX		**139,447**	**206,138**
Income tax expenses	13	-33,277	-60,608
PROFIT AFTER TAX		**106,170**	**145,530**
Attributable to non-controlling interests		7,504	11,769
Attributable to owners of the parent		**98,666**	**133,761**

The accompanying notes form an integral part of the consolidated accounts.

Precision Capital S.A.

Consolidated statement of comprehensive income
For the year ended 31 December 2015
(in EUR thousands)

	31/12/2015	31/12/2014
PROFIT AFTER TAX	**106,170**	**145,530**
OTHER COMPREHENSIVE INCOME	**-54,211**	**38,620**
Items that may be reclassified subsequently to profit and loss, net of tax	**-78,314**	**71,102**
Available-for-sale financial assets	-72,449	73,716
Revaluation at fair value	*-16,643*	*154,755*
Net realised gains / losses on sales	*-51,956*	*-81,830*
Impairment	*-*	*19*
Income tax (expenses) / income	*-3,850*	*772*
Share of other comprehensive income & expense of investments in associates	-1,517	1,230
Cash flow hedge reserve	6,959	381
Effective portion of changes in fair value	*-1,390*	*450*
Reclassification to income statement (net realised gains / losses on financial assets and liabilities not measured at fair value through profit or loss)	*10,696*	*-*
Income tax (expenses) / income	*-2,347*	*-70*
Exchange differences on translation of foreign operations	-11,307	-4,225
Items that will not be reclassified to profit and loss, net of tax	**24,103**	**-32,482**
Remeasurements of defined benefit pension plans	**24,103**	**-32,482**
Remeasurements (gross)	*26,457*	*-36,818*
Income tax (expense)/income on remeasurements	*-2,354*	*4,337*
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**51,959**	**184,150**
Attributable to non-controlling interests	3,203	17,450
Attributable to owners of the parent	**48,756**	**166,700**

The accompanying notes form an integral part of the consolidated accounts.

Precision Capital S.A.

Consolidated balance sheet
As at 31 December 2015
(in EUR millions)

ASSETS	Notes	31/12/2015	31/12/2014
Cash,cash balances at central banks and other demand deposits	36	2,113	2,737
Financial assets	14, 15, 16, 17, 18, 19, 20, 21, 34, 36	29,053	28,724
Held-for-trading	*22*	*1,005*	*1,153*
At fair value through profit or loss		*0*	*1,947*
Available-for-sale	*20*	*10,571*	*9,753*
Loans and receivables	*21*	*17,253*	*15,572*
Held-to-maturity		*124*	*164*
Hedging derivatives	*22*	*100*	*136*
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	36	18	24
Tax assets	24, 36	241	250
Current tax assets		*1*	*6*
Deferred tax assets		*240*	*244*
Investments in associates	25	38	38
Investment properties	27	161	191
Property and equipment	27	413	486
Goodwill and other intangible assets	26	295	228
Other assets	23, 36	355	386
TOTAL ASSETS		**32,687**	**33,064**

EQUITY AND LIABILITIES	Notes	31/12/2015	31/12/2014
Financial liabilities	14, 16, 17, 34	29,510	29,731
Held-for-trading	*22*	*473*	*559*
At fair value through profit or loss		*840*	*2,966*
At amortised cost		*27,812*	*25,617*
Hedging derivatives	*22*	*385*	*589*
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk		55	71
Tax liabilities	24	13	14
Current tax liabilities		*8*	*4*
Deferred tax liabilities		*6*	*11*
Provisions	28, 30	177	222
Other liabilities	29	503	514
TOTAL LIABILITIES		**30,259**	**30,553**
TOTAL EQUITY		**2,429**	**2,511**
Equity attributable to the owners of the parent	*31, 32*	*2,296*	*2,376*
Non-controlling interests	*42*	*132*	*136*
TOTAL EQUITY AND LIABILITIES		**32,687**	**33,064**

Precision Capital S.A.

Consolidated statement of changes in equity
For the year ended 31 December 2015
(in EUR millions)

	Subscribed capital (1)	Consolidated reserves	Revaluation reserve (AFS investments)	Associates	Remeasurement of defined benefit pension plans	Cash flow hedge reserve	Foreign currency translation reserve	Profit/ Loss	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance as at 01/01/2015	**1,850.0**	**277.8**	**171.4**	**3.1**	**-37.8**	**-12.5**	**-10.1**	**133.8**	**2,375.6**	**135.5**	**2,511.1**
Transfer of previous year result to the reserves	-	133.8	-	-	-	-	-	-133.8	-	-	-
Dividends and profit-sharing	-	-108.0	-	-	-	-	-	-	**-108.0**	-5.6	**-113.6**
Total comprehensive income for the year	-	-	-67.7	-1.4	22.9	6.0	-9.8	98.7	**48.8**	3.2	**52.0**
Interest on contingent convertible bonds	-	-6.3	-	-	-	-	-	-	**-6.3**	-0.7	**-7.0**
Other	-	-14.0	-	-	-	-	-	-	**-14.0**	0.1	**-13.9**
Balance as at 31/12/2015	**1,850.0**	**283.2**	**103.7**	**1.8**	**-14.9**	**-6.5**	**-19.9**	**98.7**	**2,296.0**	**132.5**	**2,428.5**

	Subscribed capital (1)	Consolidated reserves	Revaluation reserve (AFS investments)	Associates	Remeasurement of defined benefit pension plans	Cash flow hedge reserve	Foreign currency translation reserve	Profit/ Loss	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance as at 01/01/2014	**1,850.0**	**239.0**	**103.9**	**2.0**	**-6.4**	**-12.7**	**-5.8**	**139.4**	**2,309.6**	**129.8**	**2,439.4**
Transfer of previous year result to the reserves	-	139.4	-	-	-	-	-	-139.4	-	-	-
Dividends and profit-sharing	-	-90.0	-	-	-	-	-	-	**-90.0**	-10.1	**-100.1**
Total comprehensive income for the year	-	-	67.3	1.1	-31.5	0.2	-4.3	133.8	**166.7**	17.5	**184.2**
Classification of income to hybrid capital	-	-2.7	-	-	-	-	-	-	**-2.7**	-0.3	**-3.0**
Changes in scope of consolidation	-	-8.7	-	-	-	-	-	-	**-8.7**	-1.0	**-9.7**
Cancellation of DTL on hybrid capital	-	0.8	-	-	-	-	-	-	**0.8**	0.1	**0.9**
Other	-	-0.1	0.0	-	0.0	0.0	0.0	-	**-0.1**	-0.6	**-0.7**
Balance as at 31/12/2014	**1,850.0**	**277.8**	**171.4**	**3.1**	**-37.8**	**-12.5**	**-10.1**	**133.8**	**2,375.6**	**135.5**	**2,511.1**

(1) of which EUR 142.6 million subscribed but uncalled and unpaid as at 31 Decembre 2015 and 2014 (see Note 23).

Precision Capital S.A.

Consolidated cash flow statement
For the year ended 31 December 2015
(in EUR millions)

	Notes	31/12/2015	31/12/2014
Profit before tax		**139.4**	**206.1**
Adjustments to reconcile profit before tax to net cash flows:			
Impairment on securities, amortisation and depreciation on property and equipment, intangible assets and investment properties	*9, 11*	*69.1*	*81.4*
Profit/loss on the disposal of investments		*-7.3*	*-0.6*
Change in impairment for losses on loans and advances	*11*	*21.4*	*20.1*
Change in gross technical provisions – insurance		*-0.3*	*-1.6*
Change in the reinsurers' share in the technical provisions		*0.5*	*0.3*
Change in gross earned premiums		*-0.1*	*0.0*
Change in other provisions	*9*	*8.9*	*12.3*
Unrealised foreign currency gains and losses and valuation differences		*-34.7*	*-26.8*
Income from associates	*12*	*-3.7*	*-3.6*
Cash flows from operating activities, before tax and changes in operating assets and liabilities		**193.2**	**287.5**
Changes in operating assets (1)		994.3	527.9
Changes in operating liabilities (2)		-51.3	-554.3
Income taxes		-8.7	-15.9
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,123.0**	**245.3**
Purchase of subsidiaries		-9.7	-
Proceeds from sale of subsidiaries		83.7	-
Purchase of investment properties	27	-0.2	-0.3
Proceeds from sale of investment properties	27	-	11.9
Purchase of intangible assets	26	-66.8	-4.2
Proceeds from sale of intangible assets	26	-0.3	0.3
Purchase of property and equipment	27	-17.8	-21.6
Proceeds from sale of property and equipment	27	61.8	10.9
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		**50.6**	**-3.0**
Issue/repayment of loans	14	-2.3	7.4
Issue/repayment of subordinated debts	14	-41.9	107.6
Dividends paid and profit-sharing		-108.0	-90.0
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		**-152.3**	**25.0**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (3)		**1,025.8**	**267.3**
CASH AND CASH EQUIVALENTS AS AT 01/01		**4,342.2**	**4,075.0**
Net increase/decrease in cash and cash equivalents		1,025.8	267.3
CASH AND CASH EQUIVALENTS AS AT 31/12		**5,368.0**	**4,342.2**
ADDITIONAL INFORMATION			
Interest paid during the year		239.4	273.8
Interest received during the year		558.7	575.6
Dividends received (including equity method)	4	3.9	11.7
COMPONENTS OF CASH AND CASH EQUIVALENTS		**5,368.0**	**4,342.2**
Cash and balances with central banks (including mandatory reserve with the central bank)		1,642.6	2,192.7
Loans and advances to banks repayable on demand		4,933.1	3,346.9
Deposits from banks repayable on demand		-1,207.7	-1,197.3
Of which: not available (4)		*941.2*	*1,389.5*

(1) Including loans and advances to banks and customers, securities, derivatives and other assets.
(2) Including deposits from banks and customers, bonds issued, derivatives and other liabilities.
(3) Cash includes cash and deposits payable on demand; cash equivalents are short-term investments that are very liquid, easily convertible into a known cash amount and subject to a negligible risk of a change in value.
(4) Cash and cash equivalents not available for the Group are mainly composed of the mandatory reserve held with the Luxembourg Central Bank and the 'margin' accounts held with clearing houses.

Precision Capital S.A.

Notes to the consolidated accounts
As at 31 December 2015

Note 1 – General

Precision Capital Group (hereafter "Precision Capital Group" or the "Group") is a financial holding company subject to the consolidated supervision of the *Commission de Surveillance du Secteur Financier* ("CSSF").

Precision Capital S.A. (hereafter "Precision Capital" or the "Financial Holding") is a public limited liability company under Luxembourg law incorporated in Luxembourg on 14 November 2006 and has its registered office at 15, boulevard Roosevelt, L-2450 Luxembourg.

Precision Capital is a wholly-owned subsidiary of Pioneer Holding S.A., a Luxembourg entity. Precision Capital consolidated accounts are consolidated in Pioneer Holding S.A.'s consolidated accounts, comprising the largest body of undertakings of which Precision Capital forms part as a subsidiary. The registered office of Pioneer Holding S.A. is located in Luxembourg at 15, Boulevard Franklin Roosevelt, L-2450 Luxembourg.

As of 31 December 2015, Precision Capital has two affiliated companies:

- 99.91% of KBL European Private Bankers S.A. (hereafter "KBL epb"), an international network of banks and financial companies specialized in private banking.
  As of 31 July 2012, KBC Group and Precision Capital finalised the agreement on the acquisition of 99.91% of KBL epb, after having authorization from the supervisory authorities concerned, for a total consideration of EUR 1,002.1 million.

- 89.93% of Banque Internationale à Luxembourg S.A. (hereafter "BIL"), which operates retail banking, private banking, corporate banking and financial market businesses mainly in Luxembourg.
  As of 5 October 2012, Dexia S.A., Precision Capital and the Grand Duchy of Luxembourg finalised the closing of the acquisition of 99.906% of the share capital of BIL for a total consideration amount of EUR 730 million. In this transaction, Precision Capital acquired 89.92% of Dexia S.A.'s shares in BIL for EUR 657 million.
  In 2013, the purchase price has been reviewed downwards to EUR 643.6 million in reference to some articles of the Share Purchase Agreement. Also, during the year 2013, Precision Capital acquired some shares of BIL from minority shareholders, increasing its percentage of holding from 89.92% to 89.93%. During the year 2014, Precision Capital acquired some shares of BIL from minority shareholders and sold some of the shares to the Grand Duchy of Luxembourg to maintain current ownership balance unchanged. During the year 2015, the purchase price has been reviewed upwards by EUR 2.74 million to EUR 646.5 million in reference to certain articles of the Share Purchase Agreement.

KBL (Switzerland) Ltd and Puilaetco Dewaay

In January 2015, KBL *epb* finalized the Share Purchase Agreement with Banque Internationale à Luxembourg (BIL) on the merger of their private banking operations in Switzerland. Under the terms of the agreement, BIL (Suisse) will acquire KBL (Switzerland) Ltd, a wholly owned affiliate of KBL *epb*. Simultaneously, under the terms of a parallel agreement, KBL *epb* announced that Puilaetco Dewaay, the Belgian affiliate of KBL *epb*, would acquire the business of the Brussels branch of BIL. The transaction was completed on 31 October 2015.

Vitis Life

In July 2015, KBL *epb* announced the signing of an agreement with Monceau Assurances, the French insurance group, under which Monceau Assurances would acquire Vitis Life, KBL *epb*'s life insurance subsidiary. The transaction was completed on 11 October 2015.

Note 2a – Statement of compliance

The consolidated accounts presented in this report were approved by the Board of Directors of Precision Capital on 31 May 2016.

The Group consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The Group's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated accounts continue to be prepared on a going concern basis.

The consolidated accounts provide comparative information in respect of the previous financial year.

The accounting policies adopted are consistent with those of the previous financial year, except changes related to:

- a change in accounting estimate relating to some intangible assets (portfolio of customers) and,
- the amendments to IFRS effective for the Group as of 1 January 2015.

(i) Change in accounting estimate

Entities within the Group regularly acquire intangible assets referred to as 'portfolio of customers', 'fonds de commerce' or 'customer relationships'.

Up to 31 December 2014, the Group used to consider the useful life of these intangible assets as indefinite. This implied the assets were not amortized but tested for impairment (at least on a yearly basis). In accordance with IAS 38, those assets were periodically reviewed to determine whether events and circumstances continued to support an indefinite life assessment.

In early 2015, the Group decided to revise this estimate in order to consider customer relationships as intangible assets with finite useful lives. The new approach requires such assets to be:

- amortized (through profit or loss) over their estimated useful lives (for new assets, useful life will be presumed to be 15 years, unless specific facts or circumstances clearly indicate a shorter or longer period should be retained) ;
- subject to impairment tests, in case there is any indication that the assets may be impaired.

The new treatment mainly reflects the revised assessment that clients' behavior has changed. The current economic situation, increased global competition among financial institutions and observable evolution of habits are factors which significantly weaken client loyalty. Consequently, it is now more difficult to sustain the assumption that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows.

The change also aligns the Group's approach to the accounting treatment generally observed in peer groups financial statements.

The change in the accounting estimate is deemed to have occurred as of 1 January 2015.

The presumed useful life of 15 years is applicable to all newly acquired purchased portfolio of customers, whereas it has been assessed that those acquired prior to 2015 have a remaining useful life of 10 years and, consequently, are amortized over that period without any retrospective adjustment.
Amortization charges recognised in 2015 amount to a total of EUR 3.0 million (cf. note 26).

(ii) Newly applicable standards, amendments to standards and IFRIC

The following amendments to IFRS are effective for the Group as of 1 January 2015 (for the avoidance of doubt, only the new standards, amendments to standards and IFRIC which may have an effect on the Group's consolidated accounts are mentioned below):

- *Defined Benefit Plans: Employee Contributions – Amendments to IAS 19*

  IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.
  The amendments have had no impact on the Group's financial position and performance.

- *Annual Improvements 2010-2012_IFRS 8 – Operating Segments*

  The amendments – which are to be applied retrospectively – clarify that:
  - An entity must disclose the judgements made by Management in applying the aggregation criteria in paragraph 12 of *IFRS 8*. This disclosure will include a brief description of operating segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics;
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similarly to the required disclosure for segment liabilities.

- *Annual Improvements 2011-2013 _IAS 40 – Investment Property*

  The amendment clarifies:

  - that judgment is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of *IFRS 3*; and
  - that this judgment is not based on the *IAS 40* guidance but is instead based on the guidance available in *IFRS 3*.

The Group has also decided not to early adopt the standards, amendments to standards and interpretations of the IFRIC which have been published but are not applicable for the year ending 31 December 2015. The Group will adopt these standards on the date of their effective application and when they will be approved by the European Union.

This basically concerns the following publications (for the avoidance of doubt, only the new standards, amendments to standards and IFRIC which may have an effect on Precision Capital's consolidated accounts are mentioned below):

- *IFRS 9 – Financial Instruments, not yet endorsed by the EU*

  In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments* which reflects all phases of the financial instruments project and replaces *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting and will be effective for the year ending 31 December 2018.
  Based on the preliminary analyses performed, the adoption of the new standard will mainly affect the classification and measurement of the Group's financial assets and the computation of impairment losses. Further analyses will however have to be carried on in order to quantify the impact of the whole standard on the Group's financial position and performance.

- *IFRS 16 – Leases*

  IFRS 16 results in lessees accounting for all leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under *IAS 17 "Leases"*. Lessees will recognise a "right of use" asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in *IAS 17*.

- *Amendments to IAS 7 Statement of Cash Flows and IAS 12 Income Taxes*
  In January 2016, the IASB issued amendments to *IAS 7 Statement of Cash Flows* which require additional disclosure about an entity's financing activities and *IAS 12 Income Taxes* which clarify when a deferred tax asset should be recognised for unrealised losses. These revised requirements, which are effective for annual periods beginning on or after 1 January 2017.

- *IAS 1 Disclosure Initiative – Amendments to IAS 1*

  The amendments to *IAS 1 Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements, including:

  - The materiality requirements in IAS 1;
  - That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
  - That entities have flexibility as to the order in which they present the notes to financial statements;
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. This amendment is effective for annual periods beginning on or after 1 January 2016. These amendments are not expected to have any impact on the Group.

- *IFRS 15 – Revenue from Contracts with Customers, not yet endorsed by the EU*

  IFRS 15 was issued in May 2014 and subsequently amended in September 2015. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under *IFRS 15* revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognising revenue.
  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under *IFRS*. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.
  Impact of *IFRS 15* on the Group's financial position and performance has not been assessed yet.

- *Annual Improvements to IFRS – 2012-2014 Cycle*

  The annual improvement process amends seven standards. However, no amendment is expected to significantly affect the Group's financial position and performance.
  The improvements – most of which are to be applied for annual periods beginning on or after 1 January 2016 – notably include:

  Following is a summary of the amendments (other than those affecting only the standards' Basis for Conclusions) from the 2012-2014 annual improvements cycle. The changes summarised below are effective for annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted and must be disclosed.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

  Changes in methods of disposal
  - Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
  - The amendment must be applied prospectively. It is however not expected to affect the Group's annual accounts.

- *IFRS 7 Financial Instruments: Disclosures*

  Servicing contracts
  - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.
  - The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment. It is however not expected to affect the Group's annual accounts.

- *IAS 19 Employee Benefits Discount rate: regional market issue*

  - The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
  - The amendment must be applied prospectively. It is however not expected to affect the Group's annual accounts.

Note 2b – Significant accounting policies

a. Accounting estimates and judgements

In preparing the consolidated accounts, Management is required to make estimates and assumptions that affect the amounts reported. To make these assumptions and estimates, management uses information available at the date of preparation of the consolidated accounts and exercises its judgment. While management believes that it has considered all available information in developing these estimates, actual results may differ from the estimates and the differences could be material to the consolidated financial statements.

Judgments are made principally in the following areas:
- Classification of financial instruments into the appropriate category ('loans and receivables', 'held to maturity', 'available for sale', 'held for trading' and 'at fair value through profit or loss - fair value option') for measurement purposes based on the instrument's characteristics and KBL's or BIL's intention (see Note 2b.e (ii));
- Determination of fair value for financial instruments measured at fair value by means of valuation techniques (see Note 2b.e (iii));
- The appropriateness of designating derivatives as hedging instruments (see Note 2b.e (iii));
- Existence of a present obligation with probable outflows in the context of litigation (see Note 2b.m); and
- Identification of impairment triggers (see Note 2b.e (iii)).

These judgments are entered into the corresponding sections (as referenced above) of the accounting policies.

Estimates are principally made in the following areas:

- The measurement of hedge effectiveness in hedging relations (see Note 2b.e (iii));
- Determination of the market value correction to adjust for market value and model uncertainty (see Note 2b.e (iii));
- Determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets (see Note 2b.g);
- Actuarial assumptions related to the measurement of employee benefits obligations and plan assets (see Note 2b.k);
- Estimation of future taxable profit for the recognition and measurement of deferred tax assets (see Note 2b.l); and
- Estimation of the recoverable amount of cash-generating units for goodwill impairment (see Note 2b.f).

b. Consolidation criteria

All entities controlled – either exclusively or jointly – by Precision Capital, or over which Precision Capital has a significant influence are included in the scope of consolidation.

Precision Capital controls an entity when Precision Capital is exposed, or has rights, to variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. Precision Capital has power over an entity when it has existing rights that give it the current ability to direct relevant activities of the entity, i.e. those activities that significantly affect the entity's returns.
Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation (i.e. a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for liabilities, relating to the arrangement) or a joint venture (i.e. a joint arrangement whereby the parties sharing joint control have rights to the net assets of the arrangement).
Significant influence is the power to participate in the financial and operating policy decisions of an investee without being exclusive control or joint control.

Entities exclusively controlled by Precision Capital, either directly or indirectly, are consolidated using the full consolidation method.
For a joint operation, Precision Capital recognizes its share of assets, liabilities, income and expense according to the terms of the joint arrangement. Joint ventures and investments in associates (that is, where Precision Capital has significant influence) are accounted for using the equity method.

An entity is included in the scope of consolidation from the date of acquisition, being the date on which Precision Capital obtains control or significant influence over that entity and continues to be included until this control or influence ceases.

The scope of consolidation however excludes those investments which are controlled by Precision Capital or over which Precision Capital has significant influence, but which are regarded as insignificant, i.e. for which the materiality thresholds are not exceeded. Those thresholds relate to the following criteria: share in the Group equity, share in the Group profit and in the Group total balance sheet (increased by the off-balance sheet rights and commitments addressed in the computation of solvency ratios).

c. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset (and consequently, only the net amount is reported) when the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

d. Foreign currency translation

Precision Capital's consolidated accounts are presented in EUR.

The Group maintains a multi-currency accounting system under which any transaction is registered in its original foreign currency.

In preparing the annual accounts of all the consolidated entities which present their accounts in EUR, assets and liabilities in foreign currencies are translated into EUR according to the following principles:

- Monetary items denominated in foreign currencies are converted at the closing rate prevailing at the reporting date; differences arising from such conversion are recorded in the income statement;
- Non-monetary items denominated in foreign currencies measured in terms of historical cost are translated using the historical exchange rate prevailing at the date of the transaction;
- Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rate at the date when the fair value is determined and translation differences are reported together with changes in fair value.

Income and expense items denominated in foreign currencies are recognised in the consolidated income statement using exchange rates that approximate the rates at the dates of the transactions (e.g. average monthly exchange rates).

Foreign subsidiaries balance sheets denominated in foreign currencies are translated into EUR using the closing rate prevailing at the reporting date (with the exception of the capital, reserves and goodwill, which are translated using historical rates).

Foreign subsidiaries income statements denominated in foreign currencies are translated at the average exchange rate for the financial year.

Exchange differences resulting from the procedures applied to translate balance sheets and income statements of foreign subsidiaries denominated in foreign currencies into EUR are recognised as a separate item in equity.

e. Financial assets and liabilities

(i) General principles of recognition and derecognition of financial instruments

A financial instrument is recognised in the balance sheet when and only when the Group becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when and only when the contractual rights to receive cash flows from the asset have expired or the Group transfers the financial asset.

A financial liability is derecognised when and only when the contractual liability is settled, cancelled or expires.

Regular way purchases and sales of financial assets are recognised on the payment date, which is the date on which the asset is delivered. Any variation in the fair value of the asset to be received during the period from the transaction date to the payment date is recognised in the same way as for the asset acquired. In other words, the change in value is not recognised for assets recognised at cost or at amortised cost; it is recognised in the income statement for assets classified as financial assets at fair value through profit or loss and in equity for those classified as available-for-sale.

In the case of sales, the assets at fair value are measured at their sale price during the period between the transaction date and the payment date.

Pursuant to the provisions of IAS 39 on derecognition, the Group keeps securities lent in its securities portfolio but securities borrowed are not recorded on the balance sheet.

Similarly, the securities transferred through repurchase agreements are kept in the securities portfolio but those under reverse repurchase agreements are not recorded on the balance sheet.

(ii) Definition of IAS 39 categories of financial assets and financial liabilities

All financial assets and liabilities – including derivatives – must be measured on the balance sheet according to their IAS 39 category. Each category is subject to specific measurement rules.

The IAS 39 categories are the following:

- *Held-to-maturity investments* are all non-derivative financial assets with fixed maturities and fixed or determinable payments that the Group intends and is able to hold to maturity;
- *Loans and receivables* are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market;
- *Financial assets at fair value through profit or loss* include held-for-trading assets and any other financial assets initially designated at fair value through profit or loss. Held-for-trading assets are those acquired principally for the purpose of selling them in the near term and those which are part of a portfolio with indications of recent short-term profit-taking. All derivative assets are considered as being held-for-trading unless designated as effective hedging instruments. Other assets initially designated at fair value through profit or loss (frequently referred to as 'the fair value option') are valued in the same way as held-for-trading assets, even if there is no intention of short-term profit taking.

  The 'fair value option' may be used when a contract contains one or more embedded derivatives under certain conditions or when its application produces more pertinent information either because:

  - A group of financial assets/liabilities is managed on a fair value basis and its performance measured on a fair value basis, following a documented investment or risk management strategy; or
  - Because the application of this option reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

  This option is mainly used by the Group for contracts with one or more embedded derivatives, as an alternative to hedge accounting (aligning the valuation of the hedged instrument with that of the hedging instrument).

- *Available-for-sale financial assets* are all non-derivative financial assets which do not fall into one of the above categories.

- *Financial liabilities at fair value through profit or loss* encompass held-for-trading liabilities and financial liabilities initially designated at fair value through profit or loss.
  Held-for-trading liabilities are liabilities held mainly with the intention of repurchasing them in the near term. All derivative liabilities are considered as being held-for-trading unless designated as effective hedging instruments.

  Financial liabilities initially designated at fair value through profit or loss are those liabilities accounted for under the 'fair value option'. This category is currently used to eliminate or significantly reduce accounting mismatches and for the unit-linked financial liabilities of insurance subsidiaries.

- *Other financial liabilities* are all other financial instruments not at fair value through profit or loss.

- *Hedging derivatives* are the derivatives designated in hedging relationships for which hedge accounting is applied

(iii) Evaluation of financial instruments

Financial assets and liabilities are initially recognised at fair value and are then measured in accordance with the principles governing the IAS 39 category in which they are placed.

- **General principles**

Held-to-maturity assets and *Loans and receivables* with a fixed maturity are measured at amortised cost using the effective interest rate (hereinafter "EIR") method, that is the rate that precisely discounts the future cash inflows or outflows to obtain the carrying amount. Loans and receivables without a fixed maturity are measured at cost.

The *available-for-sale financial assets* are measured at fair value with changes in fair value recognised in equity ('Revaluation reserve (available-for-sale financial instruments)') until the sale or impairment of these instruments. In the latter cases, the cumulative result of the revaluation is transferred from equity to the income statement of the period.

The *financial assets and liabilities at fair value through profit or loss* are measured at fair value with changes in fair value recognised in the income statement.

Other financial liabilities are measured at amortised cost. The difference between the amount made available and the nominal amount is recognised in the income statement (net interest income) *prorata temporis*, on an actuarial basis using the EIR method.

- **Determination of fair value**

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

When available, published price quotations (unadjusted) on active markets are used to determine the fair value of financial assets or liabilities.
If such quotations are not available, fair value can be determined or derived:

- From quoted prices for similar assets or liabilities in active markets and/or from quoted prices for identical assets or liabilities in markets that are not active;
- By using a valuation technique.

When valuation techniques are used to estimate fair value, those techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted financial methodologies used for pricing financial instruments.
Such techniques encompass discounted cash flow analysis (e.g. for the valuation of interest rate swaps or forward foreign exchange transactions) and option pricing models.

Inputs used in those models (yield curves, exchange rates, volatilities...) are often readily observable on the markets. When measuring fair value, the Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

- **Impairment**

Available-for-sale financial assets, held-to-maturity investments and loans and receivables are also subject to impairment tests and impairment losses are recognised if evidence of impairment exists on the balance sheet date.

- *Available-for-sale financial assets*
  For listed shares, any significant or prolonged decline in their price compared to the acquisition cost is considered as an objective evidence of impairment. For debt and other equity instruments, the impairment amount is measured from the recoverable value.

Impairment losses are always recognised in the income statement. Impairment reversals are recognised in the income statement for debt instruments and in other comprehensive income (available-for-sale revaluation reserve) for listed shares and other equity instruments.

- *Held-to-maturity investments and Loans and receivables*
  The amount of the impairment loss is the excess of the carrying amount over the recoverable amount of the asset. The Group firstly evaluates if there is an impairment loss for each individually significant item or for each group of items not individually significant. If the Group considers that there is no evidence of an impairment loss for a given asset, individually significant or not, it includes it in a group of financial assets presenting the same credit risk characteristics and examines the possibility of an impairment loss on a collective basis. The assets evaluated individually and for which an impairment loss is recognised are not examined collectively.

- **Hedge accounting**

The Group applies hedge accounting to reflect its hedging positions in financial reporting. These can take the form of either fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation.
Hedge accounting is applied when all the following conditions are met: the hedging relationship must be designated at inception and formally documented, the hedge is expected to be highly effective and it must be possible to reliably measure the effectiveness of the hedge, forecast transactions (for cash flow hedges) must be highly probable and the hedge is measured on an ongoing basis and is determined actually to have been highly effective throughout the periods covered by the consolidated accounts for which the hedge was designated.

- Fair value hedges

This heading includes "micro-fair value hedges" and "hedges of the interest rate risk exposure of a portfolio".

Micro-fair value hedge accounting is often used by the Group to cover the exposure of a financial instrument (e.g. loans, available-for-sale bonds and some issued debt securities) to changes in fair value attributable to changes in interest rates or exchange rates. In this case those derivatives designated as hedging instruments (mainly interest rate swaps and cross-currency interest rate swaps) are measured at fair value with changes in fair value recognised in the consolidated income statement. Furthermore, the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged element and is also recognised in the consolidated income statement. If the hedged item is an available-for-sale asset already measured at fair value under other IFRS requirements, applying hedge accounting leads to splitting the change in the instrument fair value between the portion addressed by the hedging relationship, recognised in the income statement, and the portion that relates to unhedged risks, recognised in the revaluation reserve in equity.

Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, and for debt instruments, the cumulative change to the carrying amount of the hedged instrument (relating to hedged risks) is transferred to the consolidated income statement *prorata temporis* until the instrument expires.

Fair value hedge of the interest rate risk exposure of a portfolio
As indicated in Note 2a here above, the Group makes use of the provisions in IAS 39 as adopted by the European Union (frequently referred to as the "IAS 39 carve-out"). The methodology is applied to some components of the interest-rate risk exposures in several entities within the Group.

Hedge accounting is intended to reduce the interest-rate risk exposure stemming from the selected category of assets or liabilities designated as the qualifying hedged items.

The Group performs an overall analysis of interest-rate risk exposure. It involves assessing fixed-rate exposure, taking into account all the exposure coming from balance sheet and off-balance sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

The Group applies the same methodology to select which assets and/or liabilities will be entered into the portfolio's hedge of interest-rate risk exposure. Assets and liabilities are included in all the time buckets of the portfolio. Hence, when they are removed from the portfolio, they must be removed from all the time buckets in which they had an impact. Demand deposits and savings accounts may be included in the portfolio, based on behavioural study to estimate expected maturity date. The Group may designate as qualifying hedged items different categories of assets or liabilities such as available-for-sale (AFS) assets or loan portfolios.

On the basis of this gap analysis, which is carried out on a net basis, the Group defines, at inception, the risk exposure to be hedged, the length of the time-bucket, the test method and the frequency of the tests.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. Hedging items are measured at fair value with fair value changes recognised in the consolidated income statement.

Hedged interest rate risk revaluations of elements carried at amortised cost on the balance sheet are reported in assets and liabilities under the lines "Fair value adjustments of hedged items in a portfolio hedge of interest rate risk".

- Cash flow hedges

As regards to cash flow hedges, hedging instruments are measured at fair value. The portion of the gain or loss that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised in the consolidated income statement. Hedge accounting is discontinued if the hedge accounting criteria are no longer met. In this case, the hedging instruments shall be treated as held-for-trading and measured accordingly.

- Hedges of a net investment in a foreign operation

This type of hedge is accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recorded in equity, along with translation differences on the net investment.
The portion is reclassified from equity to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

f. Goodwill, badwill and other intangible assets

Goodwill arising in a business combination is defined as any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired and contingent liabilities recorded at the date of acquisition.

Goodwill arising in a business combination is not amortised but is tested for impairment at least on an annual basis.

An impairment loss is recognised if the carrying amount of the goodwill exceeds its recoverable amount. The recoverable amount may be estimated using various methods such as a Dividend Discount Model, percentage of assets under management or a price/earnings ratio multiple. Impairment losses on goodwill cannot be reversed.

Badwill (negative goodwill) is the excess of the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture or associate at the date of acquisition over the acquisition cost. Where negative goodwill exists after re-examination and re-estimation of the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture or associate, it is immediately recognised as a profit in the income statement.

The purchase of a portfolio of customers generally includes the transfer of the client assets under management to the Group and the recruitment of all or part of the account officers in charge of client relationships. This type of intangible assets is amortized on a straight-line basis over its estimated useful life, typically 15 years.

When the recognition criteria are met and when the amounts are not immaterial, software is recognised as an intangible asset. Internal and external expenses incurred during the development phase of internally generated strategic software are initially recognised in assets at cost.
These assets are subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.
Amortisation is calculated using the straight-line method over the estimated useful life. The amortisation period is usually between three and five years, except for some core business applications, for which the amortisation period can be up to ten years.

Research expenses for these projects and all expenses that relate to non-strategic projects are recognised directly in the income statement.

g. *Property and equipment*

Property and equipment are initially recognised at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

Property and equipment the use of which is limited in time are depreciated using the straight-line method over their estimated useful lives.

<u>Overview of average depreciation rates</u>

Type	*Depreciation rates*
Land	Non depreciable
Buildings	2%-5%
Technical installations	5%-10%
Furniture	8%-50%
IT hardware	17%-33%
Vehicles	20%-50%
Works of art	Non depreciable

An impairment must be recognised if the carrying value exceeds the recoverable value (which is the greater of the asset's value in use and its fair value less costs of disposal).

When property or equipment is sold, realised gains or losses are recognised in the income statement. If property or equipment is destroyed, the carrying amount to be written off is immediately recognised in the income statement.

h. *Investment properties*

Investment property is property held to earn rentals or for capital appreciation, or both.

Investment property is recognised only when it is probable that future economic benefits associated with the investment property will flow to the Group and if its cost can be measured reliably.
Investment property is measured at cost less any accumulated depreciation and impairment. It is depreciated using the straight-line method over its estimated useful live (average rate: 2% - 5%).

i. Leases

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease. The Group concludes lease contracts both as the lessee and as the lessor.

- **The Group is the lessee**

The Group is granted operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the statement of income on a straight-line basis over the lease term.
When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded as the present value of the minimum lease payments or the fair value (whichever is the lower) and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to the Group. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest rate method.

- **The Group is the lessor**

The Group grants both operating and finance leases.

Revenue from operating leases is recognised in the statement of income on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.

For finance leases, the Group recognises a "lease receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.
The interest rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

j. Technical provisions, insurance

Sufficient technical provisions are made to enable the Group to face its commitments resulting from insurance contracts. The reinsurers' share in technical provisions is included within assets on the balance sheet.

- **Provision for unearned premiums**

Premiums earned represent premiums received or receivable for all insurance policies issued before year end. The part of the premiums earned which relates to subsequent accounting periods (i.e. the entrance fee) is calculated individually *prorata temporis* for each contract with fixed duration and deferred through the transfer to the provision for unearned premiums.

- **Life insurance provision**

Life insurance provision, which comprises the actuarial value of the Group's liabilities after deducting the actuarial value of future premiums, is estimated separately for each insurance policy on the basis of mortality tables accepted in Luxembourg. Life insurance provision is calculated on the basis of a prospective actuarial method.

- **Discretionary participation feature (DPF)**

The provision for DPF is estimated separately for each contract.

The provisions linked to insurance activities were only related to Vitis Life S.A., a subsidiary of KBL epb, which has been sold in 2015.

k. Pensions

In addition to the general and legally prescribed retirement plans, the Group maintains a certain number of complementary systems in the form of both defined contribution and defined benefit pension plans.

Defined benefit plans are those under which the Group has a legal or constructive obligation to pay further contributions if the pension fund does not hold sufficient assets to pay all employee benefits for the current and past periods.

Defined contribution plans are those under which the Group has no further legal or constructive liability beyond the amount it pays into the fund.

In the case of defined benefit pension plans, the pension cost in the income statement and the liability on the balance sheet are calculated in accordance with IAS 19 (as revised in 2011), based on the Projected Unit Credit Method, which sees each period of service as giving rise to an additional unit of benefit entitlement. The calculations are made each year by independent actuaries.

The components of the defined benefit cost are recognized according to the following principles:

(i) Service cost and net interest on the net defined benefit liability / asset are recognized in the income statement;

(ii) Remeasurements of the net defined benefit liability / asset are recognized in other comprehensive income. Remeasurements include:

  - Actuarial gains and losses stemming from the remeasurement of the defined benefit obligation;
  - The return of plan assets after deducting the portion included in net interest as determined in (i); and
  - Any change in the effect of the asset ceiling – also excluding any amount included in net interest as determined in (i).

  Remeasurements recognized in other comprehensive income are not reclassified to the income statement in subsequent periods.

In the case of defined contribution plans, the contributions payable are expensed when the employees render the corresponding service which generally coincides with the year in which the contributions are actually paid.

l. Tax assets and liabilities

These balance sheet headings include both current and deferred tax assets and liabilities.

Current tax is the amount expected to be paid or recovered, using the tax rates which have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of an asset or liability and its tax base. They are valued using the tax rates in effect for the periods when the assets are realised or the liabilities settled, on the basis of the tax rates enacted or substantively enacted at the balance sheet date.
Deferred tax assets are recognised for the carryforward of all unused tax losses and unused tax credits and for all deductible temporary differences between the carrying value of the assets and liabilities and their tax base, to the extent that it is probable that future taxable profit will be available against which these losses, tax credits and deductible temporary differences can be utilised.

Where required by IAS 12, tax assets and liabilities are offset.

m. Provisions

A provision is recognised when and only when the following three conditions are met:

- the Group has a present obligation (at the reporting date) as a result of a past event;
- It is more likely than not that an outflow of resources embodying economic benefits will be required to settle this obligation; and
- the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions on loan commitments are recognized when there is uncertainty about the creditworthiness of the counterpart.

n. Financial guarantees

Financial guarantees contracts are initially recognised at fair value and subsequently measured at the higher of (i) the amount initially recognised less, when appropriate, cumulative amortisation and (ii) the Group's best estimate of the expenditure required to settle the present obligation at the reporting date.

o. Equity

Equity is the residual interest in the assets of the Group after all its liabilities have been deducted.

Equity instruments have been differentiated from financial instruments in accordance with the provisions of IAS 32.

The acquisition cost of treasury shares, if any, that have been or are being purchased is deducted from equity. Gains and losses realised on sale or cancellation of treasury shares are recognised directly in equity.

The revaluation reserve for available-for-sale financial assets is included in equity until any impairment or sale. In such a case, the gains and losses are transferred to the income statement of the period. The 'defined benefit remeasurement reserve' relating to the recognition of certain pension costs is also included in equity. This reserve will however never be subsequently recycled into the income statement.

As regards to cash flow hedges and hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity.

p. Revenue

The Group recognises revenue relating to ordinary activities if and only if the following conditions are met:

- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the amount of revenue can be measured reliably.

The specific conditions below must also be met before recognising the related revenue:

- **Net interest income**

Interest is recognised *prorata temporis* using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.
All interest paid and received on financial instruments, including held-for-trading derivatives, are recorded under the heading "Net interest income".

- **Dividends**

Dividends are recognised when the right of the Shareholders to receive the payment is established. They are presented under the heading "Dividend income" in the income statement irrespective of the IFRS category of the related assets.

- **Rendering of services**

Revenue from services is recognised by reference to the stage of completion at the balance sheet date. According to this method, the revenue is recognised in the periods when the services are provided.

- **Gross premiums, insurance**

For single premium business, revenue is recognised on the date on which the policy is effective.

q. Reclassification of prior year figures

Where necessary, certain prior year figures have been reclassified to conform with changes to the current year's presentation for comparative purposes.

Note 3 – Net interest income

(in EUR thousands)	31/12/2015	31/12/2014
Breakdown by portfolio		
Interest income	**801,584**	**932,538**
Available-for-sale financial assets	158,894	157,632
Loans and receivables	289,651	290,853
Held to maturity	2,625	3,393
Other	2	13
Sub-total of interest income from financial assets not measured at fair value through profit or loss	451,171	451,890
Financial assets held-for-trading	242,925	356,894
Net interest on hedging derivatives	107,487	123,754
Other financial assets at fair value through profit or loss	-	-
Interest expense	**-434,853**	**-588,881**
Financial liabilities measured at amortised cost	-68,514	-71,595
Other	-463	-363
Sub-total of interest expense on financial liabilities not measured at fair value through profit or loss	*-68,977*	*-71,958*
Financial liabilities held-for-trading	-195,554	-315,129
Net interest on hedging derivatives	-152,850	-169,397
Financial liabilities designated at fair value through profit and loss	-17,472	-32,397
Total	**366,731**	**343,658**

Note 4 – Dividend income

(in EUR thousands)	31/12/2015	31/12/2014
Equity instruments available-for-sale	3,449	11,290
Equity instruments held-for-trading	448	373
Equity instruments at fair value through profit or loss	1	1
Total	**3,898**	**11,663**

Note 5 – Net gains / losses on financial instruments measured at fair value through profit or loss

(in EUR thousands)	31/12/2015	31/12/2014
Held-for-trading	**595**	**14,109**
Other financial instruments at fair value	**17,673**	**6,145**
Exchange differences	**39,183**	**34,260**
Hedge accounting	**-12,553**	**-698**
Micro-hedging	-12,726	-850
Fair value of hedged items	*-2,945*	*235,154*
Fair value of hedging items	*1,237*	*-236,039*
Cash flow hedging derivatives – ineffective portion	*-11,019*	*35*
Macro-hedging	173	152
Fair value of hedged items	*9,404*	*-13,638*
Fair value of hedging items	*-9,231*	*13,790*
Total	**44,898**	**53,816**

Note 6 – Net gains / losses on financial assets and liabilities not measured at fair value through profit or loss

(in EUR thousands)	31/12/2015	31/12/2014
Available-for-sale financial assets	**61,938**	**111,979**
Debt instruments	15,451	53,414
Equity instruments	46,487	58,565
Loans and receivables	**1,380**	**-1,907**
Financial liabilities at amortised cost	**454**	**3,896**
Other	**-**	**0**
Total	**63,772**	**113,968**

Note 7 – Net fee and commission income

(in EUR thousands)	31/12/2015	31/12/2014
Fee and commission income	**600,635**	**592,858**
Asset management	405,544	380,677
Securities transactions	127,866	138,967
Other	67,226	73,214
Fee and commission expense	**-94,470**	**-88,363**
Asset management	-50,076	-42,515
Securities transactions	-13,981	-15,130
Other	-30,413	-30,718
Total	**506,165**	**504,495**

Note 8 – Other net income

(in EUR thousands)	31/12/2015	31/12/2014
Rental income	13,358	15,669
Net gains from the sale of investment property and property, plant and equipment	7,352	630
Wealth tax	-1,380	-1,412
Tax on property	-2,112	-1,146
Maintenance and repair on investment property	-135	-1,175
Other operating income	6,444	-10,516
Total	**23,528**	**2,049**

Other net operating income/expense include non-recurring amounts relating to reimbursements, write-back of provisions and other extraordinary income/loss.

Note 9 – Operating expenses

Operating expenses include staff costs, amortisation and depreciation of investment properties, amortisation and depreciation of property and equipment and intangible assets, changes in provisions and general administrative expenses.

General administrative expenses include in particular repair and maintenance expenses, advertising expenses, rent, professional duties, IT costs and various (non-income) taxes.

(in EUR thousands)	31/12/2015	31/12/2014
Staff expenses	-514,692	-477,950
General administrative expenses	-259,131	-235,388
Depreciation and amortisation of property and equipment, intangible assets and investment properties (Note 26 and Note 27)	-68,705	-77,660
Net provision allowances (Note 28)	-8,902	-12,317
Total	**-851,429**	**-803,315**

Note 10 – Staff

	31/12/2015	31/12/2014
Total average number of persons employed (in full-time equivalents - FTE)	**4,175**	**4,038**

Note 11 – Impairment

(in EUR thousands)	31/12/2015	31/12/2014
(Impairment)/reversal of impairment of:		
Loans and receivables	-21,429	-20,081
Available-for-sale financial assets	-403	-3,694
Goodwill	-10	-23
Total	**-21,843**	**-23,798**

Impairment of loans and receivables

(in EUR thousands)	31/12/2015	31/12/2014
Breakdown by type		
(Impairment)/reversal of impairment:		
Specific impairment of loans and receivables	-19,871	-13,395
Portfolio-based impairments	-1,558	-6,686
Total	**-21,429**	**-20,081**

See also Note 21 – Impairment of loans and receivables.

Impairment of available-for-sale financial assets

(in EUR thousands)	31/12/2015	31/12/2014
(Impairment)/reversal of impairment of:		
Debt instruments	-6	-11
Equity instruments	-397	-3,684
Total	**-403**	**-3,694**

See also Note 20 – Impairment of available-for-sale financial assets.

Impairment of goodwill

(in EUR thousands)	31/12/2015	31/12/2014
Purchased portfolio of customers	-10	-19
Goodwill	-	-4
Total	**-10**	**-23**

The values of goodwill in the Group's consolidated accounts are subject to an impairment test which is performed at least annually in the course of the fourth quarter.

Note 12 – Share of profit of associates

(in EUR thousands)	31/12/2015	31/12/2014
European Fund Administration S.A. and EFA Partners S.A.	611	-52
Europay	-209	249
Bourse de Luxembourg	3,323	3,404
Total	**3,726**	**3,601**

Note 13 – Income tax (expenses) / income

(in EUR thousands)	31/12/2015	31/12/2014
Breakdown by type		
Current tax	-14,942	-11,328
Deferred tax	-18,335	-49,279
Total	**-33,277**	**-60,608**

(in EUR thousands)	31/12/2015	31/12/2014
Breakdown by major components:		
Profit before tax	139,447	206,138
Luxembourg income tax rate	29.22%	29.22%
Reconciliation of the difference between the standard tax rate and the effective tax rate:	**-40,746**	**-60,233**
Plus/minus tax effects attributable to:		
Differences in tax rates, Luxembourg – abroad	-43,614	-10,997
Tax free-income	55,865	12,507
Other non-deductible expenses	-5,003	-2,848
Adjustments related to prior years	-1,659	2,402
Adjustments to opening balance due to tax rate change	-55	-31
Unused tax losses and tax credits	2,387	-708
Other	-451	-699
Income tax adjustments	**7,469**	**-374**
Total	**-33,277**	**-60,608**

Details of tax assets and liabilities are given in Note 24.

Note 14 – Classification of financial instruments: breakdown by portfolio and by product

- Financial instruments are classified into several categories ("portfolios"). Details of these various categories and the valuation rules linked to them are given in Note 2b, point d, dealing with financial assets and liabilities (IAS 39).
- The balance sheet analyses below have been conducted at the dirty price.

CARRYING AMOUNT
(in EUR millions)

31/12/2015

ASSETS	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS)	Loans and receivables (L&R)	Held-to-maturity (HTM)	Hedging derivatives	Total
Loans and advances to credit institutions	-	-	-	**3,101**	-	-	**3,101**
Loans and advances other than with credit institutions	-	-	-	**14,079**	-	-	**14,079**
Consumer credits	-	-	-	342	-	-	**342**
Mortgage loans	-	-	-	4,373	-	-	**4,373**
Term loans	-	-	-	6,810	-	-	**6,810**
Finance leasing	-	-	-	175	-	-	**175**
Current accounts	-	-	-	2,277	-	-	**2,277**
Other	-	-	-	103	-	-	**103**
Investment contracts (Insurance "branche 23")	-	-	-	-	-	-	-
Equity instruments	**2**	**0**	**181**	-	-	-	**183**
Debt instruments	**570**	-	**10,390**	**74**	**124**	-	**11,157**
Government bodies	372	-	6,060	-	103	-	**6,535**
Credit institutions	106	-	2,441	53	21	-	**2,621**
Corporates	92	-	1,889	20	-	-	**2,001**
Financial derivatives	**433**	-	-	-	-	**100**	**534**
Total	**1,005**	**0**	**10,571**	**17,253**	**124**	**100**	**29,053**
Of which reverse repos	-	-	-	2,548	-	-	**2,548**

Precision Capital S.A.

Notes to the consolidated accounts (continued)
As at 31 December 2015

CARRYING AMOUNT
(in EUR millions)

31/12/2014

ASSETS	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS)	Loans and receivables (L&R)	Held-to-maturity (HTM)	Hedging derivatives	Total
Loans and advances to credit institutions	-	-	-	**2,291**	-	-	**2,291**
Loans and advances other than with credit institutions	-	-	-	**13,269**	-	-	**13,269**
Consumer credits	-	-	-	397	-	-	**397**
Mortgage loans	-	-	-	4,204	-	-	**4,204**
Term loans	-	-	-	6,492	-	-	**6,492**
Finance leasing	-	-	-	176	-	-	**176**
Current accounts	-	-	-	1,913	-	-	**1,913**
Other	-	-	-	87	-	-	**87**
Investment contracts (Insurance "branche 23")	-	**1,943**	-	-	-	-	**1,943**
Equity instruments	**5**	**4**	**330**	-	-	-	**339**
Debt instruments	**552**	-	**9,423**	**12**	**164**	-	**10,150**
Government bodies	337	-	5,551	-	143	-	**6,031**
Credit institutions	137	-	2,232	12	21	-	**2,402**
Corporates	78	-	1,639	-	-	-	**1,717**
Financial derivatives	**596**	-	-	-	-	**136**	**733**
Total	**1,153**	**1,947**	**9,753**	**15,572**	**164**	**136**	**28,724**
Of which reverse repos	-	-	-	1,347	-	-	**1,347**

CARRYING AMOUNT
(in EUR millions)

31/12/2015

LIABILITIES	Held-for-trading (HFT) liabilities	Financial liabilities at fair value (FIFV) through profit or loss	Hedging derivatives	Financial liabilities at amortised cost	Total
Deposits from credit institutions	**-**	**-**	**-**	**2,818**	**2,818**
Deposits from other than credit institutions	**-**	**-**	**-**	**23,130**	**23,130**
Current accounts/demand deposits	-	-	-	16,736	**16,736**
Time deposits	-	-	-	6,329	**6,329**
Other deposits	-	-	-	65	**65**
Debt certificates	**-**	**-**	**-**	**1,863**	**1,863**
Deposits certificates	-	-	-	56	**56**
Customer savings bonds	-	-	-	0	**0**
Non-convertible bonds	-	-	-	1	**1**
Debt certificates	-	-	-	1,143	**1,143**
Convertible subordinated liabilities	-	-	-	150	**150**
Non-convertible subordinated liabilities	-	-	-	513	**513**
Investment contracts (insurance)	**-**	**840**	**-**	**-**	**840**
Financial derivatives	**472**	**-**	**385**	**-**	**857**
Short sales	**1**	**-**	**-**	**-**	**1**
Equity instruments	-	-	-	-	**-**
Debt instruments	1	-	-	-	**1**
Total	**473**	**840**	**385**	**27,812**	**29,510**
Of which repos	-	-	-	759	**759**

CARRYING AMOUNT
(in EUR millions)

31/12/2014

LIABILITIES	Held-for-trading (HFT) liabilities	Financial liabilities at fair value (FIFV) through profit or loss	Hedging derivatives	Financial liabilities at amortised cost	Total
Deposits from credit institutions	-	-	-	**3,021**	**3,021**
Deposits from other than credit institutions	-	-	-	**20,675**	**20,675**
Current accounts/demand deposits	-	-	-	14,361	**14,361**
Time deposits	-	-	-	6,245	**6,245**
Other deposits	-	-	-	68	**68**
Debt certificates	-	-	-	**1,759**	**1,759**
Deposits certificates	-	-	-	69	**69**
Customer savings bonds	-	-	-	1	**1**
Non-convertible bonds	-	-	-	1	**1**
Debt certificates	-	-	-	1,013	**1,013**
Convertible subordinated liabilities	-	-	-	150	**150**
Non-convertible subordinated liabilities	-	-	-	525	**525**
Investment contracts (insurance)	-	**2,966**	-	-	**2,966**
Gross technical provisions (insurance)	-	-	-	**163**	**163**
Financial derivatives	**557**	-	**589**	-	**1,146**
Short sales	**2**	-	-	-	**2**
Equity instruments	0	-	-	-	**0**
Debt instruments	2	-	-	-	**2**
Total	**559**	**2,966**	**589**	**25,617**	**29,731**
Of which repos	-	-	-	1,038	**1,038**

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying amounts and fair values of the financial assets and liabilities not measured at fair value.

	Carrying amount		**Fair value**	
(in EUR millions)	**31/12/2015**	**31/12/2014**	**31/12/2015**	**31/12/2014**
ASSETS				
Loans and advances to credit institutions	3,101	2,291	3,101	2,291
Loans and advances to other than credit institutions	14,079	13,269	14,227	13,424
Debt instruments (L&R)	74	12	74	12
Financial assets held to maturity	124	164	135	176
LIABILITIES				
Deposits from credit institutions	2,818	3,021	2,826	3,025
Deposits from other than credit institutions	23,130	20,675	23,139	20,685
Debt certificates	1,863	1,759	1,879	1,763

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) price on an active market for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

31/12/2015 (in EUR millions)	Level 1	Level 2	Level 3	Total
ASSETS				
Held-for-trading	**239**	**751**	**15**	**1,005**
Equity instruments	0	2	0	2
Debt instruments	160	404	6	570
Derivatives	79	346	9	433
At fair value through profit or loss	**-**	**0**	**-**	**0**
Available-for-sale financial assets	**8,669**	**1,788**	**91**	**10,549**
Equity instruments (excluding instruments at cost)	22	72	65	158
Debt instruments	8,647	1,717	27	10,390
Hedging derivatives	**-**	**100**	**-**	**100**
Total	**8,908**	**2,640**	**106**	**11,654**
LIABILITIES				
Held-for-trading	**80**	**373**	**21**	**473**
Equity instruments	-	-	-	-
Debt instruments	1	0	-	1
Derivatives	79	373	21	472
At fair value through profit or loss	**-**	**679**	**161**	**840**
Hedging derivatives	**-**	**385**	**-**	**385**
Total	**80**	**1,437**	**181**	**1,699**

31/12/2014 (in EUR millions)	Level 1	Level 2	Level 3	Total
ASSETS				
Held-for-trading	**479**	**659**	**15**	**1,153**
Equity instruments	1	3	0	5
Debt instruments	416	132	4	552
Derivatives	62	524	10	596
At fair value through profit or loss	**-**	**1,947**	**-**	**1,947**
Available-for-sale financial assets	**7,839**	**1,495**	**338**	**9,672**
Equity instruments (excluding instruments at cost)	55	126	68	249
Debt instruments	7,784	1,369	270	9,423
Hedging derivatives	**-**	**136**	**-**	**136**
Total	**8,317**	**4,237**	**353**	**12,907**
LIABILITIES				
Held-for-trading	**65**	**492**	**2**	**559**
Equity instruments	-	0	-	0
Debt instruments	2	0	0	2
Derivatives	64	491	2	557
At fair value through profit or loss	**-**	**2,741**	**225**	**2,966**
Hedging derivatives	**-**	**589**	**-**	**589**
Total	**65**	**3,822**	**227**	**4,114**

Level 3 items measured at fair value (including accrued interests)

Assets (in EUR millions)	Held-for-trading financial assets	Financial instruments measured at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Total
Balance as at 01/01/2015	**15**	**-**	**340**	**-**	**355**
Total profit / loss for the year	-1	-	-23	-	-24
- recognised in the income statement	-1	-	1	-	0
- recognised in other components of comprehensive income	-	-	-24	-	-24
Purchases	3	-	23	-	26
Sales	-3	-	-198	-	-201
Transfers from / to level 3	1	-	-50	-	-49
Balance as at 31/12/2015	**15**	**-**	**94**	**-**	**109**
Total profit / loss for the year recognised in the income statement and relating to assets held as at 31/12/2015	0	-	4	-	4

Liabilities (in EUR millions)	Held-for-trading financial liabilities	Financial instruments measured at fair value through profit or loss	Hedging derivatives	Total
Balance as at 01/01/2015	**2**	**225**	**-**	**227**
Total profit / loss for the year	0	0	-	0
- recognised in the income statement	0	0	-	0
- recognised in other components of comprehensive income	-	-	-	-
Purchases	19	94	-	112
Sales	-	-162	-	-162
Transfers from / to level 3	-	-	-	-
Conversion differences	-	4	-	4
Balance as at 31/12/2015	**21**	**161**	**-**	**181**
Total profit / loss for the year recognised in the income statement and relating to liabilities held as at 31/12/2015	-	-	-	-

Assets (in EUR millions)	Held-for-trading financial assets	Financial instruments measured at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Total
Balance as at 01/01/2014	**16**	**-**	**28**	**-**	**44**
Total profit / loss for the year	-2	-	1	-	-1
- recognised in the income statement	-2	-	3	-	1
- recognised in other components of comprehensive income	-	-	-2	-	-2
Purchases	7	-	219	-	226
Sales	-3	-	-4	-	-7
Transfers from / to level 3	-3	-	96	-	92
Balance as at 31/12/2014	**15**	**-**	**340**	**-**	**355**
Total profit / loss for the year recognised in the income statement and relating to assets held as at 31/12/2014	0	-	-	-	0

Liabilities (in EUR millions)	Held-for-trading financial liabilities	Financial instruments measured at fair value through profit or loss	Hedging derivatives	Total
Balance as at 01/01/2014	**4**	**315**	**-**	**320**
Total profit / loss for the year	-1	3	-	2
- recognised in the income statement	-1	3	-	2
- recognised in other components of comprehensive income	-	-	-	-
Purchases	1	71	-	72
Sales	-3	-82	-	-86
Transfers from / to level 3	1	-81	-	-80
Conversion differences	0	-1	-	-1
Balance as at 31/12/2014	**2**	**225**	**-**	**227**
Total profit / loss for the year recognised in the income statement and relating to liabilities held as at 31/12/2014	-	-	-	-

KBL epb

Level 3 positions mainly include investments in Private Equity structures, holdings in unlisted equity instruments and other participating interests. Most significant positions – which are all available-for-sale financial assets – are further commented here below.

Private Equity holdings include two main positions whose global fair value recognized in the statement of financial position at year end amounts to EUR 25.0 million.

The first one (EUR 20.7 million) consists in shares held in a sub-fund (SIF / SICAV) whose investment objective is to build a balanced portfolio of properties in order to derive benefits from changes in the demand for and supply of wood products and biomass. The fund currently owns forests and a farm in Eastern Europe.
The fund net asset value (NAV) is measured on a yearly basis and published in audited financial statements. The valuation of the underlying assets of the fund (i.e. the biological and tangible assets) is performed by two independent appraisers appointed by the Board of Directors of the fund (in accordance with the Private Placement Memorandum).

Methodologies used by the appraisers to fair value the underlying assets range from 'market comparison' approaches (where fair value is derived from most recent valuations / transactions observed on similar assets in the same area, adjusted for the main differences identified between the proxy asset and the target asset to be fair valued) to pure 'income approaches' (DCF method). The DCF computation is based on the latest business plan prepared by the fund managers and on assumptions which include, among others, the discounting rate used, inflation rates, exit yield, sales growth targets, crop productivity levels and costs.

The DCF Model is based on several assumptions among which (i) expectations that the biomass market will gradually reach maturity over the coming years and (ii) the liberalization of the gas market to take place in the area where the entity operates and which should lead to significant increase of gas prices.
Agriculture crop yields are also expected to record a gradual increase in productivity levels, following expected improvement of the soil quality through intensive sub-soiling and plowing activities. Energy crop yields have been estimated based on technical studies. The basic estimated discounting rates have been calculated using the Capital Asset Pricing Model, which led to estimates of 7.8% (for the forests) and 8.2% (for the farm activities).
For the key assumptions of timber price, biomass price, food and energy crops productivity and discounting rates that have significant impact on fair value of forest properties and farm activities, sensitivity analyses were performed.
Those analyses led to fund NAV per share estimates which ranged from EUR 104.5 to EUR 122.8.

The market comparison approach led to a range of NAV valuation from EUR 104.1 to EUR 107.8.

Considering (i) the numerous significant assumptions used in the DCF valuation methodology, (ii) the lack of historical experience (back-testing of the applied model), (iii) the fact the underlying activity has still not reached the break-even point and (iv) the illiquidity of the position, KBL epb group management decided to maintain the valuation of this investment at EUR 105.1 per share.

The second investment (EUR 4.3 million) relates to a company whose investment policy is to hold a portfolio of retail parks throughout Europe (+/- 50% in Western Europe and +/- 50% in Eastern Europe). Some of the parks currently held by the company are operational and generate a yield; others are in construction or are just projects under review for future potential investments.
Latest information received from the company indicates that business performance is strong in terms of net operating cash-flows.
The consistency of the independent appraiser estimates performed during the first quarter 2015 has been recently confirmed by the sale of a major park held in Belgium, which was disposed of at a price slightly above the latest fair valuation received.
Net cash-inflows generated by the company, both in the ordinary course of business and from the net proceeds received in the above sale transaction have been returned to investors in December 2015.
After reviewing those latest business developments, and taking into account the December distribution of EUR 0.93/share, Group management decided to adjust the fair valuation of its interest in the company to reflect most recent valuation of underlying properties less the amount distributed. This led to a decrease in the price per share from EUR 7.44 to EUR 6.51.

Other participating interests mainly include two holdings for a global fair value of EUR 15.8 million.

The first one (EUR 9.4 million) relates to an interest in a company offering securities settlement services. For this item, the Group performed several valuations derived from the latest financial information received from the company and current market data observed for peer entities (accounting Net Asset Value, Discounted Dividend Model and valuation based on the P/E ratio). The average price derived from these methodologies amounted to EUR 655.5.

The other position is a participating interest in a stock exchange (EUR 6.4 million). For this holding, the Group retained the valuation performed by an independent valuer appointed by the company.
Valuation estimates were computed using two different approaches: a discounted cash flow approach (DCF) and P/E multiples.
The DCF model notably includes a weighted average cost of capital of 6.29%, a long term growth rate of 1%, a liquidity discount of 15% as well as a minority discount of 15%. P/E multiples have been computed from average peers P/E ratios of 17.4 (actual 2014) and 15.4 (forecast 2015). Average fair value stemming from both models was then estimated to be EUR 1,703 per share; this figure has been used to fair value the position in the Group financial statements as of 31 December 2015.
The appraisal report also included a sensitivity analysis under various scenarios and for both models. Under that analysis, computed fair values ranged from EUR 1,187 to EUR 2,455 per share.

BIL

Changes in the amounts declared under Level 3 in 2013 and 2014 can be explained as follows:

Following the AQR review, BIL has elaborated a procedure defining the criteria for an active market and the notions of observable and non-observable inputs. These definitions have led the Bank to reconsider the levels of existing positions and led to changes in the levels of some banking and structured bonds activities.

- Banking bonds

For each position, the Financial Risk Management (FRM) department has obtained from Bloomberg the following information:
- The bid and ask spread;
- The issue size (with type of issuer and currency);
- Number of contributors providing a direct observable price.

Following these criteria, FRM has submitted a level for advise to a market expert.
The market expert has pointed out that some instruments are still in an active market even though all the criteria are not filled. Therefore, we need to consider the following information:

a) The rarity of the issue: when the overall issuer debt is relatively low, or in the case of securities issued by issuers outside the Eurozone. This is the case of emissions from Poland, the Czech Republic (EUR -area size and debt), Slovakia and Lithuania (loan size). The bid/ask spread observed on these bonds can be relatively low as well as the number of contributors.
b) Securitisations: prices are not available on Bloomberg, therefore there is no spread, nor any contributor. However, they are reported on a daily basis by traders and there are at least five contributors per security.
c) The investors "buy and hold" behavior: certain issues are sought by investors but retained in their portfolio, therefore there are less sellers than buyers and as a result the bid / ask spread is low and there are sometime limited contributors. This is particularly the case for emissions from Qatar, Abu Dhabi and Luxembourg.

- Structured bonds

Finalyse communicates for each product the type of data required for the valorization as well as whether these data are observable or not. Moreover, the market expert is requested to evaluate the impact of the non observability of the forward data.
The "Total gains and losses in the statement of income" column cannot be analysed separately as such. Indeed, certain assets and liabilities at amortised cost or classified under Level 1 or 2 may be hedged by derivatives classified under Level 3. We refer to note 11.3 "Result of hedge accounting" for an economic view of the impact in the statement of income.
It should be noted that Level 3 financial instruments held for trading are the result of buybacks of BIL issues.

Sensitivity of level 3 valuation of alternative scenarios

BIL uses a discounted cash flow model to determine the mark-to-model price. Sensitivity is a measurement of the fair value impact of alternative scenarios relating to the model's unobservable parameters at the closing date.

With regard to the spread valuation, in cases where BIL uses its own models, alternative scenarios relating to unobservable parameters were taken into consideration, in particular for:

- credit spreads: by considering credit spreads available on a single counterpart or, failing that, on similar counterparts or counterparts belonging to similar sectors, or by using credit spreads indexed to liquid CDS indices;

- liquidity premiums: by considering the different levels of premiums primarily used in determining the fair value of bonds, and which depend in particular on the eligibility of the security for refinancing with the central banks;
- the illiquidity of the financial instrument: by considering a change in the estimated liquidity of the market for a single instrument or similar products, and/or by incorporating an analysis of the bid-ask spread for real transactions.

Tests were carried out on all financial instruments classified under Level 3.

The effects of sensitivity are mainly felt at the level of structured issues recognised at fair value through profit and loss. These effects are, however, offset by a reverse sensitivity at the level of activity-related hedging derivatives.

The most significant stand-alone level 3 instrument is BIL's participation in Luxair SA. The sensitivity test leads to a minor impact in the OCI reserve. Nevertheless, such a sensitivity analysis is not relevant as many factors (such as fuel market volatility and global economic context) may impact Luxair valuation.

Transfers between the level 1 and level 2 categories

31/12/15 **ASSETS (in EUR millions)**	**From Level 1 to Level 2**	**From Level 2 to Level 1**
Held-for-trading	**4**	**4**
Equity instruments	0	0
Debt instruments	4	4
Available-for-sale	**296**	**281**
Equity instruments(excluding instruments at cost)	-	-
Debt instruments	296	281
LIABILITIES (in EUR millions)		
Held-for-trading	**0**	**-**
Equity instruments	-	-
Debt instruments	0	-

31/12/14 **ASSETS (in EUR millions)**	**From Level 1 to Level 2**	**From Level 2 to Level 1**
Held-for-trading	**30**	**0**
Equity instruments	1	0
Debt instruments	29	-
Available-for-sale	**769**	**101**
Equity instruments(excluding instruments at cost)	85	-
Debt instruments	684	101
LIABILITIES (in EUR millions)		
Held-for-trading	**0**	**-**
Equity instruments	0	-
Debt instruments	0	-

Group policy for determining the timing of the transfers

The transfers disclosed in the above table are deemed to have occured at the end of the reporting period.
Transfers are thus measured at the closing fair values of the related items.

Reasons for those transfers

All transfers between categories mainly reflect a change in the Group assessment of the current liquidity of underlying instruments, compared to the previous analysis performed as at 31 December 2014.

All transfers disclosed are deemed to have occurred at the end of the reporting period. Transfers are thus measured at the closing fair values of the related items.

Note 15 – Available-for-sale financial assets, Loans and receivables and Held-to-maturity financial assets: breakdown by portfolio and quality

(in EUR millions)	Held-to-maturity (HTM)	Available-for-sale (AFS)	Loans and receivables (L&R)	Total
31/12/2015				
Unimpaired assets	124	10,560	17,200	**27,884**
Impaired assets	-	38	384	**422**
Impairment	-	-27	-331	**-359**
Total	**124**	**10,571**	**17,253**	**27,947**

(in EUR millions)	Held-to-maturity (HTM)	Available-for-sale (AFS)	Loans and receivables (L&R)	Total
31/12/2014				
Unimpaired assets	164	9,739	15,525	**25,428**
Impaired assets	-	42	366	**408**
Impairment	-	-29	-319	**-348**
Total	**164**	**9,753**	**15,572**	**25,488**

Note 16 – Financial assets and liabilities: breakdown by portfolio and residual maturity [(1)]

(in EUR millions)	Held-for-trading (HFT) (1)	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS)	Loans and receivables (L&R)	Held-to-maturity (HTM)	Total
ASSETS						
31/12/2015						
Less than or equal to 1 year	402	-	1,294	9,009	-	**10,704**
More than 1 but less than or equal to 5 years	106	-	5,034	2,161	-	**7,300**
More than 5 years	62	-	4,053	6,084	124	**10,323**
Indefinite period	2	0	190	-	-	**192**
Total	**572**	**0**	**10,571**	**17,253**	**124**	**28,520**
31/12/2014						
Less than or equal to 1 year	395	-	818	4,672	-	**5,885**
More than 1 but less than or equal to 5 years	76	-	5,003	4,858	39	**9,978**
More than 5 years	80	-	3,664	6,042	125	**9,910**
Indefinite period	5	1,947	268	-	-	**2,219**
Total	**557**	**1,947**	**9,753**	**15,572**	**164**	**27,991**

[(1)] excluding derivatives

(in EUR millions)	Held-for-trading (HFT) (1)	Financial instruments at fair value (FIFV) through profit or loss	Liabilities at amortised cost	Total
LIABILITIES				
31/12/2015				
Less than or equal to 1 year	0	216	25,734	**25,949**
More than 1 but less than or equal to 5 years	0	400	1,773	**2,173**
More than 5 years	1	225	304	**529**
Indefinite period	0	-	1	**1**
Total	**1**	**840**	**27,812**	**28,653**
31/12/2014				
Less than or equal to 1 year	0	423	23,139	**23,562**
More than 1 but less than or equal to 5 years	0	424	2,092	**2,516**
More than 5 years	0	176	223	**399**
Indefinite period	2	1,943	164	**2,109**
Total	**2**	**2,966**	**25,617**	**28,585**

(1) excluding derivatives

Note 17 – Offsetting of financial assets and liabilities

A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet position when, and only when the Group:

- Currently has a legally enforceable right to set off the recognized amounts; and
- Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Group currently has no legally enforceable right which satisfies the above conditions. It follows that all amounts presented on the face of the balance sheet are gross amounts.

The Group however frequently enters into Master Netting Agreements ("MNA") with its counterparties to manage the credit risks associated primarily with (i) repurchase and reverse repurchase transactions, (ii) securities borrowing / lending and (iii) over-the-counter derivatives.
These arrangements may also be supplemented by collateral agreements.

Offsetting rights provided for by such MNA are generally conditional upon the occurrence of some specific future events (typically the events of default, insolvency or bankruptcy of the counterparty). They are thus not current, which prevents the Group from setting the related assets and liabilities off on the balance sheet.
Similarly, the rights of set off relating to the cash and other financial instrument collateral are also conditional upon the default of the counterparty.

The financial impact of the MNA potential offsetting opportunities are disclosed in the following tables. Only Global Master Repurchase Agreements (GMRA) for repurchase agreements and International Swaps and Derivatives Association Master Agreement (ISDA) for over-the-counter derivatives have been considered.

The effect of Master Netting Agreements relating to securities lending and borrowing has not been reported because, as underlined in the Group's significant accounting policies (cf. Note 2b), those transactions are not recognized on the balance sheet (i.e. securities lent are not derecognized from the balance sheet and securities borrowed are not recognized within assets). Notes 20 and 21 give additional information on those activities and on the related financial collateral received / pledged.

ASSETS (in EUR millions) 31/12/2015	Gross amounts of financial assets presented on the balance sheet	Impact of Master Netting Agreements: Netting potential / financial liabilities	Impact of Master Netting Agreements: Financial collateral received (securities and cash)	Net amount
Cash, cash balances at central banks and other demand deposits	2,113	-	-	2,113
Financial assets				
Hedging and trading derivatives	534	-124	-204	205
Held-for-trading assets (excluding derivatives)	572	-	-	572
Assets designated at fair value through profit or loss	0	-	-	0
Available-for-sale financial assets	10,571	-	-	10,571
Loans and receivables	17,253	-330	-2,213	14,710
Held to maturity	124	-	-	124
Total	**31,167**	**-455**	**-2,417**	**28,295**

LIABILITIES (in EUR millions) 31/12/2015	Gross amounts of financial liabilities presented on the balance sheet	Impact of Master Netting Agreements: Netting potential / financial assets	Impact of Master Netting Agreements: Financial collateral pledged (securities and cash)	Net amount
Financial liabilities				
Hedging and trading derivatives	857	-124	-485	248
Held-for-trading liabilities (excluding derivatives)	1	-	-	1
Liabilities designated at fair value through profit or loss	840	-	-	840
Liabilities measured at amortized cost	27,812	-330	-461	27,021
Total	**29,510**	**-455**	**-946**	**28,110**

ASSETS (in EUR millions) 31/12/2014	Gross amounts of financial assets presented on the balance sheet	Impact of Master Netting Agreements: Netting potential / financial liabilities	Impact of Master Netting Agreements: Financial collateral received (securities and cash)	Net amount
Cash, cash balances with central banks and other demand deposits	2,737	-	-	2,737
Financial assets				
Hedging and trading derivatives	733	-168	-290	274
Held-for-trading assets (excluding derivatives)	557	-	-	557
Assets designated at fair value through profit or loss	1,947	-	-	1,947
Available-for-sale financial assets	9,753	-	-	9,753
Loans and receivables	15,572	-368	-771	14,432
Held to maturity	164	-	-	164
Total	**31,461**	**-537**	**-1,061**	**29,863**

LIABILITIES (in EUR millions) 31/12/2014	Gross amounts of financial liabilities presented on the balance sheet	Impact of Master Netting Agreements: Netting potential / financial assets	Impact of Master Netting Agreements: Financial collateral pledged (securities and cash)	Net amount
Financial liabilities				
Hedging and trading derivatives	1,146	-168	-704	273
Held-for-trading liabilities (excluding derivatives)	2	-	-	2
Liabilities designated at fair value through profit or loss	2,966	-	-	2,966
Liabilities measured at amortized cost	25,617	-368	-680	24,569
Total	**29,731**	**-537**	**-1,385**	**27,810**

Note 18 – Securities lending and securities given in guarantee

The Group regularly carries out transactions in which the assets transferred do not qualify for derecognition under IAS 39. The related securities are generally transferred under full ownership and the counterpart is thus able to re-use them in other operations.
This mainly concerns the following operations:

- Repurchase agreements (“repo”);
- Securities lending; and
- Securities given as collateral (in particular for securities borrowing or to guarantee credit lines received).

These transactions can be broken down as follows:

31/12/2015 (in EUR millions)	Repo (**) Debt instruments	Securities lending Debt instruments	Securities lending Equity instruments	Collateral given for securities borrowing (***) Debt instruments	Other Debt instruments
Held-for-trading financial assets	-	2	-	-	-
Available-for-sale financial assets	519	809	-	140	680
Total financial assets not derecognised	**519**	**812**	**-**	**140**	**680**
Other (*)	227	160	-	138	-
Total	**745**	**972**	**-**	**278**	**680**

31/12/2014 (in EUR millions)	Repo (**) Debt instruments	Securities lending Debt instruments	Securities lending Equity instruments	Collateral given for securities borrowing (***) Debt instruments	Other Debt instruments
Held-for-trading financial assets	-	1	-	-	3
Available-for-sale financial assets	900	764	-	63	569
Total financial assets not derecognised	**900**	**765**	**-**	**63**	**573**
Other (*)	135	278	-	412	51
Total	**1,034**	**1,043**	**-**	**474**	**623**

(*) The item 'Other' relates to securities borrowed or received as collateral for other operations.
(**) The carrying amount of debts associated with repo operations is available in Note 14.
(***) Fair value of securities borrowed: EUR 230 million at 31/12/2015 (EUR 390 million at 31/12/2014)

Note 19 – Securities received in guarantee

The Group mainly receives securities as collateral in relation to its reverse repurchase agreement operations and securities lending.
These securities are generally transferred under full ownership and the Group is able to re-use them in other operations.

The fair value of these guarantees can be broken down as follows:

(in EUR millions)	31/12/2015	31/12/2014
Reverse repurchase agreements	2,579	1,352
Collateral received in securities lending	221	310
Total	**2,800**	**1,661**
of which transferred to:		
Repurchase agreements	20	25
Securities lent	4	-
Collateral given for securities borrowing	138	412
Other	-	51
Total	**162**	**487**

Note 20 – Impairment of available-for-sale financial assets

Changes (in EUR millions)	Debt instruments	Equity instruments
Balance as at 01/01/2015	**6**	**23**
Changes affecting the income statement	0	0
Allowances	-	0
Reversals	0	0
Changes not affecting the income statement	0	-2
Change in the scope of consolidation	0	-1
Securities sold/matured	0	-2
Other	0	1
Balance as at 31/12/2015	**6**	**21**

Changes (in EUR millions)	Debt instruments	Equity instruments
Balance as at 01/01/2014	**5**	**45**
Changes affecting the income statement	0	4
Allowances	0	4
Reversals	0	-
Changes not affecting the income statement	0	-26
Change in the scope of consolidation	-	-
Securities sold/matured	0	-27
Other	0	2
Balance as at 31/12/2014	**6**	**23**

Note 21 – Impairment of loans and receivables

(in EUR millions)	31/12/2015	31/12/2014
Total	**331**	**319**
Breakdown by type	**331**	**319**
Specific impairments of loans and receivables	301	290
Portfolio-based impairment	31	29
Breakdown by counterparty	**331**	**319**
Loans and advances to credit institutions	-	-
Loans and advances to other than credit institutions	331	319

Changes (in EUR millions)	Specific impairments on loans and receivables	Portfolio-based impairment	Total
Balance as at 01/01/2015	**290**	**29**	**319**
Changes affecting the income statement	7	2	9
Allowances	43	3	46
Reversals	-36	-2	-38
Changes not affecting the income statement	3	0	3
Change in the scope of consolidation	-1	-	-1
Use of provision	-5	-	-5
Other / Change impact	9	0	9
Balance as at 31/12/2015	**301**	**31**	**331**

Changes (in EUR millions)	Specific impairments on loans and receivables	Portfolio-based impairment	Total
Balance as at 01/01/2014	**269**	**22**	**292**
Changes affecting the income statement	20	7	26
Allowances	37	18	55
Reversals	-18	-11	-29
Changes not affecting the income statement	1	0	1
Change in the scope of consolidation	-	-	-
Use of provision	-9	-	-9
Other / Change impact	10	0	10
Balance as at 31/12/2014	**290**	**29**	**319**

Note 22 – Derivatives

The notional value of the foreign exchange contracts represents the nominal to be delivered.

Held for Trading

(in EUR millions)	2015			2014		
	Fair value		Notional value	Fair value		Notional value
	Assets	Liabilities		Assets	Liabilities	
Total	**433**	**472**	**41,604**	**596**	**557**	**42,837**
Interest rate	**108**	**111**	**17,806**	**250**	**248**	**26,741**
OTC options	-	-	23	0	0	24
OTC other	106	109	17,069	248	246	26,013
Organized market options	2	2	271	2	2	593
Organized market other	0	0	443	0	0	111
Equity	**96**	**104**	**2,018**	**81**	**70**	**2,006**
OTC options	6	17	84	5	4	93
OTC other	12	9	149	15	5	170
Organized market options	78	78	1,731	60	60	1,656
Organized market other	0	0	54	1	1	87
Foreign exchange and gold	**229**	**256**	**21,771**	**264**	**239**	**14,058**
OTC options	3	3	723	2	2	529
OTC other	225	254	21,018	262	236	13,519
Organized market options	0	0	14	-	-	-
Organized market other	0	0	16	0	0	10
Commodity	**0**	**0**	**1**	**0**	**0**	**10**
Other	**0**	**0**	**9**	**0**	**0**	**22**

Hedging

(in EUR millions)	2015 Fair value			2014 Fair value		
	Assets	Liabilities	Notional value	Assets	Liabilities	Notional value
Total	**100**	**385**	**5,222**	**136**	**589**	**7,428**
Fair value hedges	**81**	**357**	**4,401**	**106**	**534**	**6,176**
Interest rate	**78**	**316**	**4,169**	**106**	**504**	**6,024**
OTC options	0	-	6	0	-	1
OTC other	78	316	4,163	106	504	6,023
Organized market options	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-
Foreign exchange and gold	**3**	**41**	**232**	**-**	**30**	**152**
OTC options	-	-	-	-	-	-
OTC other	3	41	232	-	30	152
Organized market options	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-
Cash flow hedges	**19**	**28**	**821**	**31**	**55**	**1,251**
Interest rate	**18**	**28**	**798**	**31**	**55**	**1,156**
OTC options	-	-	-	-	-	-
OTC other	18	28	798	31	55	1,156
Organized market options	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-
Equity	**1**	**-**	**23**	**-**	**-**	**-**
OTC options	-	-	-	-	-	-
OTC other	1	-	23	-	-	-
Organized market options	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-
Foreign exchange and gold	**0**	**-**	**-**	**-**	**-**	**96**
OTC options	-	-	-	-	-	-
OTC other	0	-	-	-	-	96
Organized market options	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-

Note 23 – Other assets

The heading ‘Other assets’ covers various short-term receivables such as dividends and coupons that clients bring to be cashed and the value of which has already been paid, and prepaid charges.

As at 31 December 2015 and 2014, an amount of EUR 142.6 million of subscribed capital but uncalled and unpaid is also reported under this heading (see Note 31).

Note 24 – Tax assets and liabilities

(in EUR millions)	31/12/2015	31/12/2014
Current tax assets	**1**	**6**
Deferred tax assets	**240**	**244**
of which:		
Employee benefits	10	14
Losses carried forward	349	383
Tangible and intangible assets	-47	-58
Provisions	-47	-49
Impairment of loans and advances	8	7
Financial instruments at fair value through profit or loss	3	6
Available-for-sale financial assets	-43	-69
Other	6	9
TAX ASSETS	**241**	**250**
Tax losses and tax credits not capitalised [1]	129	155

[1] Tax losses and tax credits not capitalised concern tax losses of Group companies, which are not recognised because of uncertainty about future taxable profits.

(in EUR millions)	31/12/2015	31/12/2014
Current tax liabilities	**8**	**4**
Deferred tax liabilities	**6**	**11**
of which:		
Employee benefits	0	1
Losses carried forward	-	0
Tangible and intangible assets	1	1
Provisions	0	-1
Impairment for losses on loans and advances	-3	1
Financial instruments at fair value through profit or loss	-	0
Available-for-sale financial assets	7	8
Other	1	0
TAX LIABILITIES	**13**	**14**

Changes in deferred tax assets and liabilities are not equal to the deferred tax charge/income recognised in the consolidated income statement during the year. This is mainly due to the deferred tax linked to the recognition in the revaluation reserve of fair value changes on unimpaired available-for-sale financial assets.

Note 25 – Investments in associates

Associates are companies over which the Precision Capital Group has a significant influence, either directly or indirectly, without having full or joint control.

(in EUR millions)	31/12/2015	31/12/2014
Total	**38**	**38**
Overview of investments in associates (including goodwill)		
European Fund Administration S.A. and EFA Partners S.A.	12	12
Bourse de Luxembourg	26	25
Europay	0	1
Goodwill in associates		
Gross amount	-	-
Cumulative impairment	-	-

Changes (in EUR millions)	31/12/2015	31/12/2014
Opening balance	**38**	**12**
Share of profit for the year	4	0
Dividends paid	-2	-
Gains and losses not recorganised in the income statement	-2	-
Changes in scope	-	26
Ending balance	**38**	**38**

Summary financial information (in EUR thousands)	Total assets	Total liabilities excluding equity	Net profit
31/12/2015			
European Fund Administration S.A.	36,230	10,976	1,227
EFA Partners S.A.	2,084	8	-8
Bourse de Luxembourg	198,406	100,012	13,007
Europay	12,677	11,201	90
31/12/2014			
European Fund Administration S.A.	33,531	9,503	1
EFA Partners S.A.	2,101	11	-14
Bourse de Luxembourg	203,694	103,480	13,407
Europay	9,321	7,425	62

Note 26 – Goodwill and other intangible assets

Changes (in EUR millions)	Goodwill arising from a business combination	Purchased portfolio of customers	Softwares developed in-house	Softwares purchased	Other	Total
Balance as at 01/01/2015	**137**	**38**	**43**	**9**	**1**	**228**
Acquisitions	-	54	14	7	5	81
Disposals	-	-	0	0	-	0
Depreciation	-	-3	-15	-4	-1	-23
Impairment	-	0	-	-	-	0
Allowances	-	0	-	-	-	0
Reversals	-	-	-	-	-	-
Changes in scope	10	-	-1	-	-	9
Other	0	0	0	0	1	0
Balance as at 31/12/2015	**146**	**90**	**41**	**12**	**6**	**295**
Of which cumulative depreciation and impairment	-	*-94*	*-114*	*-43*	*-11*	*-261*
Balance as at 01/01/2014	**137**	**39**	**47**	**7**	**1**	**231**
Acquisitions	-	-	19	4	0	24
Disposals	-	-	-	0	-	0
Depreciation	-	-	-25	-3	0	-28
Impairment	0	0	-	-	-	0
Allowances	0	0	-	-	-	0
Reversals	-	-	-	-	-	-
Changes in scope	-	-	-	-	-	-
Other	-	-	0	2	0	2
Balance as at 31/12/2014	**137**	**38**	**43**	**9**	**1**	**228**
Of which cumulative depreciation and impairment	*0*	*-93*	*-112*	*-39*	*-2*	*-245*

Note 27 – Property and equipment and investment properties

(in EUR millions)	31/12/2015	31/12/2014
Property and equipment	**413**	**486**
Investment properties		
Carrying amount	161	191
Fair value	141	162
Investment properties – Rental income	**13**	**16**

Investment properties' fair values disclosed above are based on valuations obtained from independent valuers who hold a recognized and relevant professional qualification and have recent experience in the location and category of the investment properties being valued.
The estimates are primarily derived from recent transactions and other local market data observable in the areas where the properties are held. Related fair values are thus to be classified within the level 2 category under the IFRS 13 fair value hierarchy.

Changes (in EUR millions)	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment properties
Balance as at 01/01/2015	**445**	**12**	**29**	**486**	**191**
Acquisitions	9	6	2	18	0
Disposals	-51	0	-3	-54	-4
Depreciation	-22	-5	-4	-31	-13
Changes in scope	-	-	0	0	-18
Other	-5	0	0	-5	6
Balance as at 31/12/2015	**376**	**13**	**23**	**413**	**161**
Of which cumulative depreciation and impairment	*-342*	*-46*	*-143*	*-531*	*-8*
Balance as at 01/01/2014	**480**	**13**	**32**	**524**	**205**
Acquisitions	9	9	3	22	0
Disposals	-11	0	-2	-13	-9
Depreciation	-24	-6	-5	-36	-14
Changes in scope	-	-	-	-	-
Other	-9	-3	0	-11	9
Balance as at 31/12/2014	**445**	**12**	**29**	**486**	**191**
Of which cumulative depreciation and impairment	*-345*	*-49*	*-150*	*-544*	*-92*

Leasing

1. Group as lessor

A. Finance Lease

(in EUR millions)	31/12/2015	31/12/2014
Gross Investment in finance lease:		
Less than 1 year	77	71
More than 1 year and less than 5 years	229	238
SUBTOTAL (A)	**306**	**309**
UNEARNED FUTURE FINANCE INCOME ON FINANCE LEASE (B)	**-132**	**-135**
NET INVESTMENT IN FINANCE LEASE (A) - (B)	**173**	**174**

(in EUR millions)	31/12/2015	31/12/2014
Net investment in finance lease may be analysed as follows:		
Less than 1 year	33	28
More than 1 year and less than 5 years	140	146
TOTAL	**173**	**174**

(in EUR millions)	31/12/2015	31/12/2014
Amount of doubtful on finance lease included in the loan loss provision at the end of the financial year	4	4
Estimated fair value of finance lease	173	174
Accumulated provision for irrecoverable minimum lease payments	3	3

Overview of the significant provisions of leasing contracts (as per IFRS 7)

The assets managed by the Group through BIL's subsidiaries (BIL Lease SA) may be broken down as follows:

- 69.1% of the assets is composed of vehicles, mainly passenger cars but also commercial vehicles
- 10.5% is composed of IT equipment
- 20.1% is composed of industrial equipment: machinery, medical equipment, etc
- 0.3% of the assets is composed primarily of office furniture

B. Operating Lease

BIL is the operating lessor of certain land and buildings.

(in EUR millions)	31/12/2015	31/12/2014
Future net minimum lease payments under operating lease:		
Less than 1 year	7	7
More than 1 year and less than 5 years	-	7
TOTAL	**7**	**14**

No contingent rents were recognised in 2014 and 2015.

2. Group as lessee

A. Finance Lease

The Group is the financial lessee of certain land and buildings.
Given that the total amounts are not material, additional information has not been provided in this note.

B. Operating lease

(in EUR millions)	31/12/2015	31/12/2014
Future net minimum lease payments under non-concellable operating lease:		
Less than 1 year	8	6
More than 1 year and less than 5 years	11	5
More than 5 years	9	1
TOTAL	**28**	**12**

Lease and sublease payments recognised as an expense during the financial year:		
- minimum lease payments	6	5
TOTAL	**6**	**5**

Note 28 – Provisions

Changes (in EUR millions)	Pensions and other post employment defined benefit obl.	Other long term employee benefits	Specific impairment for credit commitments	Pending legal disputes	Other provisions	Total
Balance as at 01/01/2015	**131**	**20**	**0**	**31**	**41**	**222**
Changes affecting the income statement (Note 9)	3	3	0	6	17	**29**
Allowances	5	4	-	8	18	**34**
Reversals	-1	-1	0	-2	-1	**-6**
Other changes	-24	1	0	-14	-36	**-74**
Balance as at 31/12/2015	**110**	**23**	**0**	**23**	**21**	**177**

Changes (in EUR millions)	Pensions and other post employment defined benefit obl.	Other long term employee benefits	Specific impairment for credit commitments	Pending legal disputes	Other provisions	Total
Balance as at 01/01/2014	**115**	**25**	**1**	**33**	**36**	**211**
Changes affecting the income statement (Note 9)	-9	5	-1	2	14	**11**
Allowances	1	6	0	7	17	**31**
Reversals	-10	0	-1	-5	-3	**-19**
Other changes	24	-11	1	-5	-10	**0**
Balance as at 31/12/2014	**131**	**20**	**0**	**31**	**41**	**222**

Specific impairment for credit commitments: provisions accounted for to cover risk on given guarantees, more precisely on credits for which the Bank acts as sub-participant.

Provisions for pending legal disputes: provisions recorded to cover legal disputes with private and professional counterparties, including lawyers' fees.

Other provisions: other provisions than the above-mentioned provisions.

KBL:

For most of the provisions recorded, no reasonable estimate can be made of when they will be used.

The main litigation cases are the following:

Madoff litigation

In December 2008, Bernard L. Madoff's massive Ponzi scheme was discovered. Bernard L. Madoff Investment Securities LLC ("BLMIS") and its "feeder funds" were put into liquidation.
The liquidator of BLMIS considers that certain investors in BLMIS knew or should have known that BLMIS was fraudulent. The liquidator therefore launched a claim to recover payments made by BLMIS to these investors (so called "claw-back actions"). As the liquidator started claw-back actions against the feeder funds, the liquidators of these funds have in their turn started similar proceedings against KBL *epb* and other defendants before the New York Courts and the BVI Courts. The BVI Courts rejected the liquidators' restitution claim against KBL *epb* and other defendants judging that they acted in good faith. The liquidators appealed this judgement of the BVI court before the Privy Council in London. The Privy Council rejected the liquidators' appeal on 16 April 2014. As for the second proceedings before the BVI courts (i.e. proceedings to have the authority of the liquidators removed), parties are awaiting judgment in this matter. Finally, proceedings before the New York Court are still pending and KBL *epb* as well as the other defendants will now try to dismiss these proceedings.

As in these cases the risks are remote, provisions have only been made for the legal costs.

KBL (Switzerland) tax regularization programs

KBL (Switzerland) assessed the legal risk and, on the basis of the assumptions made, it has, where appropriate, accounted for provisions for the risk of non-recovery by the paying agents of the up-front payment made within the tax agreement between the Swiss Confederation and the United Kingdom (Rubik). This matter came to a final conclusion in Q1 2015 and a payment of CHF 1,885,107 was made by KBL (Switzerland) to the Swiss Federal Tax Administration. As for its participation to the US Program proposed by the US Department of Justice (DoJ), KBL (Switzerland) on the basis of assumptions and assessments of the legal risk had accounted for provisions for the payment of a potential penalty to the DoJ. This matter came to a final conclusion on 18 November 2015, KBL (Switzerland) at the mentioned date entered into a non-prosecution agreement with the DoJ and paid, as a final settlement, a penalty amount of USD 18,792,000. KBL *epb* on 31 October 2015 completed the sale transaction relating to the shares of its subsidiary KBL (Switzerland) to Banque Internationale à Luxembourg (Suisse) S.A..

BIL:

Banque Internationale à Luxembourg SA and Banque Internationale à Luxembourg (Suisse) SA

Following the bankruptcy of Bernard L. Madoff Investment Securities ("BLMIS"), the official receivers of BLMIS and certain investment funds linked to B. Madoff instituted legal proceedings against numerous financial institutions and institutional investors that had purchased Madoff securities and investment products linked to B. Madoff. In accordance with the "clawback principle", they are claiming the return of profits and redemptions obtained on these investments over a period of several years until the discovery of the fraudulent set-up put in place by BLMIS that culminated in its collapse.

Some of these clawback actions were brought against Banque Internationale à Luxembourg SA and its subsidiary Banque Internationale à Luxembourg (Suisse) SA, the plaintiffs claiming the reimbursement of an amount in principal estimated at approximately USD 68 million, most of which corresponds to investments made by Banque Internationale à Luxembourg SA on behalf of third parties.

At this time, Banque Internationale à Luxembourg SA is not able to express a reasonable opinion on the duration or outcome of actions sub judice or on any potential financial impact.

As at December 31, 2014 and 2015, no provision for clawback actions had been made.

Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

Banque Internationale à Luxembourg Bank Danmark A/S

A Danish bank, EBH BANK, went bankrupt in the turbulent conditions of the 2008 crisis, and people connected with this bank were charged with fraud and market manipulation as part of transactions involving EBH BANK shares and those of other listed companies.

As part of this case, complaints were lodged with the police by the Danish regulator against Banque Internationale à Luxembourg Bank Danmark A/S ("BIL DK") and one of its traders for aiding EBH BANK in allegedly manipulating the market. This trader and, subsequently, BIL DK, were investigated for this alleged aid. The police investigation is still in progress and is likely to result in BIL DK and former its trader being charged.

BIL DK denies any involvement or responsibility in connection with the actions targeted by the investigation. Effective on December 18, 2013, BIL DK transferred its assets and obligations to a newly created branch of BIL in Denmark. BIL DK will however continue to exist until the foregoing investigation is closed or otherwise terminated; BIL DK has been renamed Selskabet of 18 December 2013 A/S.

The Bank is not involved in any other material litigation, where adequate provisions have not been funded, that readers may need to consider in evaluating the risks related to possible credit risks or current or potential litigation.

Note 29 – Other liabilities

The heading 'Other liabilities' in particular covers various items payable in the short term such as coupons and redeemable securities as paying agent.

Note 30 – Retirement benefit obligations

In addition to the legally prescribed plans, entities of the Group maintain various complementary pension plans, of both the defined contribution and defined benefit kind.

The staff of the various entities is covered by means of a number of funded and insured pension plans most of which are defined benefit plans. In order to be able to participate in some of these plans, a minimum period of service is required within the Group and the benefits may also depend on the employees' years of affiliation to the plans as well as on their remuneration in the years before retirement. The annual funding requirements for these various complementary pension plans are determined based on actuarial cost methods.

DEFINED BENEFIT PLANS (in EUR millions)	31/12/2015	31/12/2014
Defined benefit plan obligations		
Value of obligations as at 01/01	**517**	**481**
Current service cost	13	16
Interest cost	8	14
Past service cost and losses arising from settlements	-	-9
Actuarial (gains)/losses	-24	71
stemming from changes in demographic assumptions	-1	0
stemming from changes in financial assumptions	-15	76
experience adjustments	-8	-5
Benefits paid	-25	-63
Out of which: amounts paid in respect of settlements	*-*	*-30*
Plan participant contributions	1	2
Currency adjustment	4	3
Business combinations and disposals	-38	5
Other	-2	-2
Value of obligations as at 31/12	**454**	**517**
Fair value of plan assets		
Fair value of assets as at 01/01	**390**	**367**
Actual return on plan assets	8	46
Interest income	6	11
Return on plan assets (excluding interest income)	2	35
Employer contributions	14	18
Plan participant contributions	1	2
Benefits paid	-21	-48
Out of which: amounts paid in respect of settlements	*-*	*-19*
Currency adjustment	3	3
Business combinations and disposals	-35	5
Other	-2	-2
Fair value of assets as at 31/12	**358**	**390**

Plan assets include an investment of EUR 0.2 in a transferable security issued by the Group (2014: - million). A property is partially used by the Group for administrative purposes. The fair value of the portion of the property held for own use, as estimated at year-end, is EUR 0.5 million (2014: EUR 0.5 million).

	31/12/2015	31/12/2014
Effect of the asset ceiling		
Effect of the asset ceiling as at 01/01	**-1**	**-1**
Interest on the effect of asset ceiling	0	0
Change in the effect of asset ceiling	-5	0
Business combinations and disposals	-	-
Effect of the asset ceiling as at 31/12	**-6**	**-1**

Precision Capital S.A.

Notes to the consolidated accounts (continued)
As at 31 December 2015

(in EUR millions)	31/12/2015	31/12/2014
Funded status		
Plan assets in excess of defined benefit obligations	-97	-127
Unrecognised assets	-6	-1
Unfunded accrued / prepaid pension cost	**-103**	**-128**
Changes in net defined benefit pension liability or asset		
Unfunded accrued / prepaid pension cost as at 01/01	**-128**	**-115**
Net periodic pension cost recognized in the income statement	-15	-9
Remeasurements recognized in OCI (excl. change in tax provision)	21	-36
Employer contributions	14	18
Pension payments by employer	3	14
Out of which: amounts paid in respect of settlements	*-*	*11*
Business combinations and disposals	3	-
Currency adjustment	0	0
Unfunded accrued / prepaid pension cost as at 31/12	**-103**	**-128**
Changes in the tax provision relating to current deficits on external plans		
Recognized provision as at 01/01	**0**	**-3**
Change in the provision recognized through OCI	0	-1
Pension payments by employer	0	2
Gains and losses arising from settlements	-	1
Business combinations and disposals	-	-
Recognized provision as at 31/12	**0**	**0**
Changes in the remeasurement reserve in equity		
Recognized reserve as at 01/01	**-47**	**-10**
Remeasurement recognized in OCI	20	-37
Other	6	0
Recognized reserve as at 31/12	**-20**	**-47**
AMOUNTS RECOGNIZED IN COMPREHENSIVE INCOME		
Amounts recognised in the income statement		
Current service cost	-13	-16
Net interest on the defined benefit liability/asset	-2	-3
Past service cost	-	2
Gains and losses arising from settlements	-	8
Other	0	0
Net pension cost recognized in the income statement	**-15**	**-8**
Amounts recognized in other comprehensive income		
Actuarial gains/losses on the defined benefit obligation	24	-71
Actual return on plan assets (excluding amounts included in interest income)	2	35
Change in the effect of the asset ceiling	-5	0
Change in the tax provision	0	-1
Currency adjustment	-1	0
Total other comprehensive income	**20**	**-37**
Actual return on plan assets	**2.26%**	**12.51%**

Breakdown of plan assets	100%	100%
Fixed income		
Quoted market price in an active market	65%	66%
Unquoted	-	-
Equities		
Quoted market price in an active market	14%	17%
Unquoted	-	-
Alternatives		
Quoted market price in an active market	2%	4%
Unquoted	-	-
Cash	3%	5%
Real estate	1%	1%
Other	15%	6%

(in EUR millions)	31/12/2015	31/12/2014

Significant actuarial assumptions used:

Defined benefit obligation
The rate used to discount the post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds with similar maturities than the pension commitments.

Discount rate	0.75% to 3.70%	1.17% to 3.60%
DBO sensitivity to changes in discount rate		
Scenario DR -1%	+63	+73
Scenario DR +1%	-49	-59
Expected rate of salary increase (including inflation)	0.50% to 3.75%	1.00% to 3.00%
Scenario SR -1%	-10	-10
Scenario SR +1%	+11	+15
Maturity profile of the DBO		
Weighted average duration of the DBO (in years)	**13**	**16**
Expected contributions for next year	**15**	**16**

Defined contribution plans (in EUR millions)	31/12/2015	31/12/2014
Amount recorded in the income statement	**-9**	**-8**

Note 31 – Equity attributable to the owners of the parent

Authorized and subscribed capital

As at 31 December 2015 and 2014, the authorized and subscribed capital of Precision Capital amounts to EUR 1,850,031,000, of which EUR 1,707,431,000 paid up (see Note 23), represented by 18,500,310 shares with a par value of EUR 100 each.

Legal reserve

Under Luxembourg law, the Company must allocate to a legal reserve an amount equivalent to at least 5% of the annual net profit (after deduction of the losses brought forward) until such reserve is equal to 10% of the share capital. This allocation is made in the following year. Distribution of the legal reserve is not allowed.

Note 32 – Result allocation proposal

An interim dividend of EUR 108 million has been distributed as of 22 June 2015.

At its meeting on 31 May 2016, the Board of Directors proposes to allocate the profit for the year ended 31 December 2015, amounting to EUR 115,258,447.02 as per the Company's statutory annual accounts as of 31 December 2015 as follows:

Legal reserve	5,762,922.35
Dividend	108,000,000.00
Retained earnings	1,495,524.67

This result allocation proposal will be submitted to the approval of the Annual General Meeting of Shareholders to be held on 17 June 2016.

Note 33 – Loans commitments, financial guarantees and other commitments

(in EUR millions)	31/12/2015	31/12/2014
Confirmed credits, unused	659	580
Financial guarantees	864	905
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	1,607	2,377
Total	**3,131**	**3,862**

Note 34 – Related party transactions

As at 31 December 2015, there are no related party transactions with the parent company of Precision Capital, except a debit current account of EUR 1.3 million, a deposit of EUR 28.7 million at KBL epb and a contingent convertible bond of EUR 150 million issued by BIL S.A. and subscribed by the parent company of Precision Capital. Moreover, BIL granted loans to other related parties for a total amount of EUR 150.6 million.

As at 31 December 2014, there are no related party transactions with the parent company of Precision Capital, except a loan of EUR 33 million, a debit current account of EUR 4.5 million and a contingent convertible bond of EUR 150 million issued by BIL S.A. and subscribed by the parent company of Precision Capital. Moreover, BIL granted loans to other related parties for a total amount of EUR 141.2 million.

The transactions with the key management personnel of KBL epb are as follows:

WITH KEY MANAGEMENT PERSONNEL In EUR millions	**31/12/2015**		**31/12/2014**	
	Amount	Number of persons	Amount	Number of persons
Amount of remuneration to key management personnel of KBL *epb* group on the basis of their activity, including the amounts paid to former key management personnel	42	210	42	216
Credit facilities and guarantees granted	9	58	8	61
Loans outstanding	10	38	5	42
Guarantees outstanding	0	6	0	9
Pension commitments	51	40	56	46
Expenses for defined contribution plans	3	119	2	115

The transactions with the key management personnel of BIL are as follows:

(in EUR millions)	**31/12/2015**	**31/12/2014**
Loans	11	11
Deposits	12	13
Guarantees and commitments given	1	1
Assets entrusted from third parties	8	11

Furthermore, BIL granted emoluments to current members of its administrative and financial bodies and has made contributions in respect of retirements pensions on their behalf as follows:

(in EUR millions)	**31/12/2015**		**31/12/2014**	
	Remuneration	**Retirement pensions**	**Remuneration**	**Retirement pensions**
Members of the administrative bodies	1	-	1	-
Members of the managerial bodies	18	2	13	3
Total	**19**	**2**	**14**	**3**

Note 35 – Solvency

The table below gives the solvency ratios calculated pursuant to CSSF circular 06/273 as amended by EU Parliament & Council, Capital Requirement Regulation (CRR 2013/575).

(in EUR millions)	31/12/2015	31/12/2014
Regulatory capital	**1,572**	**1,518**
Tier 1 capital	**1,547**	**1,440**
Capital instruments eligible as CET1 Capital	1,707	1,707
Retained earning (including reserves)	196	59
Accumulated OCI[2]	90	201
Non-controlling interests[2]	86	68
Intangible assets and purchased goodwill	-148	-91
Goodwill	-146	-137
Deferred tax assets [1]	-265	-278
Adjustments due to prudential filters	5	11
Defined benefit pension fund assets	-6	-2
Non significant investments in CET1 of financial sector entities	-	-3
Other transitional adjustments of CET1 capital	-50	-172
CET1 capital elements or deductions – other	-20	-12
Other deductions	-	-
Additional Tier 1 (Convertible contingent bonds)	97	89
Tier 2 capital	**26**	**78**
Subordinated liabilities	25	75
Positive amounts under expected loss IRB (IRB shortfall)	1	3
Non significant investments in T2 of financial sector entities	-	0
Risk weighted assets	**9,419**	**9,177**
Credit risk [2]	7,445	7,248
Market risk	396	352
Credit value adjustment	40	50
Operational risk	1,538	1,526
Solvency ratios		
Common Equity Tier 1 ratio	**15.39%**	**14.72%**
Basic solvency ratio (Tier 1 ratio)	**16.42%**	**15.69%**
Solvency ratio (CAD ratio)	**16.69%**	**16.55%**

(1) At the CSSF request, deferred tax assets are partially deducted from Tier 1 capital

(2) At the CSSF request, the following booking entries relating to IFRS 3 are not included in the regulatory own funds of Precision Capital:

(in EUR millions)	Tier 1 capital	
	Capital, share premium, reserves and retained earnings	Minority interests
Tangible assets fair value	151.4	11.2
AFS bonds reserve	19.7	1.3
AFS equity reserve	16.1	1.7
HTM bonds fair value	0.1	0.0
Insurance provision	-1.5	0.0
Total impact	**185.9**	**14.2**

Note 36 – Maximum credit risk exposure and collateral received to mitigate the risk

(in EUR millions)	31/12/2015	31/12/2014
Assets	**31,722**	**30,121**
Balances with central banks and other demand deposits	2,056	2,680
Financial assets	29,053	26,781
Held-for-trading	1,005	1,153
At fair value through profit or loss (excluding "Branche 23")	0	4
Available-for-sale	10,571	9,753
Loans and receivables	17,253	15,572
Held-to-maturity	124	164
Hedging derivatives	100	136
Tax assets	241	250
Other assets	372	410
Off-balance sheet items	**3,131**	**3,862**
Loans commitments	659	580
Financial guarantees	864	905
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	1,607	2,377
Securities Lending	**972**	**316**
Maximum credit risk exposure	**35,825**	**34,299**

For the instruments carried at fair value, the amounts disclosed above represent the current credit risk exposure and not the maximum credit risk that could apply as a consequence of future changes in the estimates made.

Collateral received to mitigate the maximum exposure to credit risk

(in EUR millions)	31/12/2015	31/12/2014
Equity	-	-
Debt instruments	506	513
Loans and advances	6,533	5,050
of which measured at fair value	-	-
Derivatives	309	421
Other (including loans commitments given, undrawn amount)	1,057	1,195
Collateral received to mitigate the maximum exposure to credit risk	**8,405**	**7,179**

The amount and type of collateral required depend on the type of business considered and the Group's assessment of the debtor's credit risk.

The main types of collateral received are as follows:
- Cash;
- Securities (in particular for reverse repo operations and securities lending); and
- Other personal and/or collateral guarantees (mortgages).

These guarantees are monitored on a regular basis to ensure their market value remains adequate as regards the assets they are intended to cover. If a guarantee is noted to be insufficient, margin calls are made in accordance with the agreements signed with the various counterparties concerned.

Note 37 – Risk management

Risk management is assumed at the level of each of the two sub-group held by Precision Capital, BIL and KBL epb. Therefore, quantitative and qualitative information relating to BIL and KBL epb local risk management are reported separately below. This information is also reported in the respective consolidated annual financial statements of these subsidiaries.

The Pillar III reports are published on the respective internet sites of BIL and KBL epb.

KBL epb
This note aims to disclose the '*nature and risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks*', as required by IFRS 7. The information is presented by risk type as proposed by the standards. In the note below, KBL European Private Bankers Group is mentioned "KBL *epb* group" or the "Group".

1. Credit risk

1.1. Qualitative information

1.1.1. Origin of credit risk

The credit risks arising from financial instruments mainly originate from:
- lending to private clients (mainly Lombard loans and Mortgage loans). Risk in this activity is largely mitigated by a strong collateral policy, implying limited unsecured exposures;
- positions in ALM portfolios;
- uncommitted lines covering the trading activity and counterparty exposures with banks (forex, money markets, swaps, reverse repo, securities lending, derivatives, etc.);
- the granting of uncommitted lines to clients of the Institutional & Professional Services (IPS) Function in Luxembourg (mainly UCI), to cover temporary overdrafts;
- the acceptance of securities used as collateral in securities lending and repo transactions.

1.1.2. Credit allocation decision making process / governance

In Luxembourg, as in subsidiaries, all lending/investment decisions and decisions to grant uncommitted lines are the responsibility of the Executive Committee or one of the other competent bodies designated under the delegation of authority based on specific criteria. This delegation of powers always requires the involvement of at least two people from different entities, to ensure that there is no risk of conflict of interest. A credit authority grid within the credit policy defines the limits for credit decisions within each of the subsidiaries of the group. Any credit proposal exceeding the defined limits has to be submitted to the Group Credit Committee ("GCC") for consideration, with further escalation to the Executive Committee and/or Board Risk Committee for final decision on those credits which are above the limits of the GCC.

Each new credit proposal submitted to the Group Credit Committee/Executive Committee is accompanied by an opinion issued by Group Credit Risk Control, based on an analysis of the financial situation and creditworthiness of the borrower and of the structure of collateral. Internal processes ensure the identification of related counterparties, in order to monitor concentration risk on debtors/group of debtors. Group structures are moreover permanently updated by Group Credit Risk Control.

1.1.3. Credit policy

In the context of the development of credit activity for private banking clients, a revised credit policy was introduced in early 2014 which defines the framework within which loan activities to customers are managed in the KBL *epb* group, validated by the Board Risk Committee ("BRC"). The credit policy was updated in early 2015 and is subject to further review/update on an annual basis.

[(1)] The Board Risk Committee or BRC is a sub-Committee of the Board of Directors dedicated to risk issues

1.1.4. Measurement/monitoring of credit risk

Credit risk related to lending activities, investment portfolios or trading activities has to remain within the general framework set in the Risk Appetite Statement validated by the Board Risk Committee. Therefore, specific indicators are reported to the ALCO on a monthly basis and quarterly to the BRC. Special attention is set on concentration risk, being on single issuers, single banking counterparties or countries.

Group Credit Risk Control has its own system for country and concentration limits, approved by the Executive Committee and by the Board Risk Committee. This system allows the definition of limits adapted to the size of the Group and to its risk appetite.

At a regulatory level, KBL *epb* group uses the standardised Basel III methodology to calculate credit risk.

1.1.4.1. Loans

In terms of the day-to-day monitoring of lending transactions, the loan administration systems automatically monitor the loans and guarantees schedule, which allows any overdraft or collateral shortfall to be detected and the appropriate corrective actions to be taken swiftly.

On a quarterly basis, a global consolidated reporting of all lending exposures is performed, detailing the portfolio by loan type, customers type, countries, maturities and performing status. It also presents information on the effective loan-to-values for the collateralized exposures.

The files for which a specific monitoring is requested are included in the Watchlist which is discussed monthly in the Group Credit Committee.

1.1.4.2. Investment portfolios

Investment proposals in the portfolios of any entity of KBL *epb* group are submitted by the Group ALM Function. All proposals within the Group have to respect the concentration limits, defined by issuer type (Sovereigns, Corporates and Banks), as well as the concerned country limits. The Group Credit Risk Control department checks the availability under those limits before any investment and may advise against any investment based on its own credit risk assessment, supported by comments provided by the international rating agencies and analysis of the published financial statements.

Group Credit Risk Control automatically monitors debtors' ratings, as reported by rating agencies, and informs the entities concerned accordingly. Various types of standard or specific reports are also drawn up in order to monitor any deterioration in the quality of the portfolio.

Any overdraft of issuer concentration limits, due to rating downgrades, is communicated monthly to the ALCO, and quarterly to the BRC.

1.1.4.3. Interbank transactions

The set-up and monitoring of interbank limits, which are mainly concentrated in the Luxembourg Dealing Room, is a major activity of Group Credit Risk Control. It covers:

- The maintenance of maximum limits, in line with principles validated by the BRC.

  This system defines interbank limits which are commensurate with the size of the Bank and its risk appetite. It fully integrates the Large Exposures regulation. Loans outstanding are allocated to lines according to a standard "marked-to-market + add on" approach.

  Their update is triggered by changes in one of the influencing factors (ratings, tier 1 capital...);

- The set-up of operational limits (that can only be smaller than maximum limits) that are necessary to adequately allocate interbank sub-limits across the different products (Money Market, Repo, Securities Lending...) is processed in accordance with the different desks.

  The monitoring of exposures and their compliance with operational limits is monitored on a daily basis by the Group Credit Risk Control department.

1.1.4.4. Collateral monitoring

The management and supervision of collateral received for secured transactions, in addition to contract management, is handled by the Collateral Management entity, having been transferred from Group Risk Control to Operations in early 2014. Specific guidelines validated by the Executive Committee set rules on concentration by counterparties and by securities accepted as collateral, as well as risk correlation limits (correlation between the counterparty and the collateral). The respect of these rules is monitored on a daily basis by the Group Credit Risk Control department.

1.1.4.5. Country limits

The framework for the definition and monitoring of country limits covers all types of country risks (in particular that of contagion) and not only the risk of transferability.

Lines are allocated to the Bank and its subsidiaries for credit activities, bonds investments and trading room activities (for Luxembourg) as and when required. As for counterparty risk, the respect of the set country limits is monitored on a daily basis.

1.1.4.6. Concentration monitoring

As mentioned here above, issuer concentration limits are defined per individual or group of counterparts. These limits are assigned to sovereigns, banks and corporates, using a methodology derived from the country limit framework and consider additional financial criteria. Issuer concentration limits are divided into sub-limits which preserve diversification both in terms of maturity and products.

The issuer concentration limits are updated and monitored by Group Credit Risk Control. Exception reports are escalated to the Group ALCO.

1.2. Quantitative information

1.2.1. Breakdown of credit risk exposures

The distribution of the credit risk exposures (available-for-sale (AFS) financial assets and Loans and Receivables (L&R)) by products is as follows:

in EUR millions AFS 31/12/2014	Amortised cost (before impairment)			Fair value (after impairment)		
	NPL/Impaired	Standard	Total	NPL/Impaired	Standard	Total
Bank bonds	-	863.9	**863.9**	-	926.7	**926.7**
Corporate bonds	9.5	1,036.7	**1,046.3**	3.9	1,107.9	**1,111.8**
Asset-backed securities	-	-	**-**	-	-	**-**
Government bonds	-	1,701.9	**1,701.9**	-	1,830.5	**1,830.5**
Sub-total	**9.5**	**3,602.5**	**3,612.0**	**3.9**	**3,865.1**	**3,869.0**
Other (Equity instruments, funds...)						**221.4**
TOTAL						**4,090.5**

in EUR millions AFS 31/12/2015	Amortised cost (before impairment)			Fair value (after impairment)		
	NPL/Impaired	Standard	Total	NPL/Impaired	Standard	Total
Bank bonds	-	980.3	**980.3**	-	1,035.1	**1,035.1**
Corporate bonds	8.1	1,037.3	**1,045.4**	4.2	1,086.0	**1,090.1**
Asset-backed securities	-	-	**-**	-	-	**-**
Government bonds	-	1,663.8	**1,663.8**	-	1,792.6	**1,792.6**
Sub-total	**8.1**	**3,681.4**	**3,689.5**	**4.2**	**3,913.6**	**3,917.8**
Other (Equity instruments, funds...)						**136.7**
TOTAL						**4,054.5**

in EUR millions Loans and receivables 31/12/2014	NPL/Impaired	Standard	Total
Banks and other financial institutions	-	1,288.0	1,288.0
Customers	23.9	2,368.5	2,392.4
Sub-total	**23.9**	**3,656.5**	**3,680.4**
Other L&R and Intercompanies	-	-	-
TOTAL			**3,680.4**

in EUR millions Loans and receivables 31/12/2015	NPL/Impaired	Standard	Total
Banks and other financial institutions	-	2,252.9	2,252.9
Customers	29.4	2,696.3	2,725.7
Sub-total	**29.4**	**4,949.2**	**4,978.6**
Other L&R and Intercompanies	-	-	
TOTAL			**4,978.6**

1.2.2. Specific loan impairment

For the parent company in Luxembourg, which constitutes the largest portion of global exposures, the valuation of potential losses and the adjustment of specific impairments are carried out quarterly by Group Credit Risk Control. The Group Credit Committee decides on any adjustment for the first three quarters of the year, while it is the responsibility of the Executive Committee for the fourth quarter.

Subsidiaries submit their proposals for impairments during the quarterly consolidation.

Below are listed specific impairments established in respect of non performing loans and available-for-sale financial assets (debt instruments) as at 31 December 2014 and 2015:

in EUR millions

31/12/2014	**< 30 days**	**30-60 days**	**60-90 days**	**90-180 days**	**6-12 months**	**>12 months**	**other impaired (1)**	**Total**
AFS gross	-	-	-	-	-	-	9.5	9.5
Impairment	-	-	-	-	-	-	5.6	5.6
AFS net	-	-	-	-	-	-	3.9	3.9
L&R gross	-	4.0	-	1.5	2.5	42.4	7.7	58.1
Impairment	-	1.3	-	-	0.0	29.4	3.5	34.2
L&R net	-	2.8	-	1.5	2.4	13.0	4.2	23.9
Total gross	-	4.0	-	1.5	2.5	42.4	17.2	67.6
Impairment	-	1.3	-	-	-	29.4	9.1	39.8
Total net	-	2.8	-	1.5	2.4	13.0	8.1	27.8

(1) The related assets are impaired but not because of delays in payments.

in EUR millions

31/12/2015	**< 30 days**	**30-60 days**	**60-90 days**	**90-180 days**	**6-12 months**	**>12 months**	**other impaired (1)**	**Total**
AFS gross	-	-	-	-	-	-	8.1	8.1
Impairment	-	-	-	-	-	-	4.0	4.0
AFS net	-	-	-	-	-	-	4.2	4.2
L&R gross	-	-	-	0.1	4.0	33.6	17.3	55.0
Impairment	-	-	-	-	2.4	16.6	6.7	25.7
L&R net	-	-	-	0.1	1.6	17.1	10.6	29.4
Total gross	-	-	-	0.1	4.0	33.6	25.5	63.2
Impairment	-	-	-	-	2.4	16.6	10.7	29.7
Total net	-	-	-	0.1	1.6	17.1	14.8	33.5

(1) The related assets are impaired but not because of delays in payments.

In 2015, the Bank set up an impairment on the loans of a client with a shortfall in the collateral value which also influenced the stock of impairment.

The loan/loss ratio is as follows:

Loan/Loss ratio (*)	**2014**	**2015**
L&R from customers	0 bps	1bps
AFS financial assets	0 bps	0bps

(*) The loan/loss ratio is defined as the net variation of specific and general impairments on the average loan portfolio over the year.

1.2.3. Concentration of risks

1.2.3.1. By rating[1]

in EUR millions Rating 31/12/2014	AFS			L&R-Banks and other financial institutions			
	NPL / Impaired	*Standard*	*Total*	*Other L&R*	*Reverse Repo*	*Commercial Paper*	*Total*
AAA	-	880.1	880.1	-	-	-	-
AA+	-	152.2	152.2	-	-	-	-
AA	-	716.4	716.4	-	-	-	-
AA-	-	239.0	239.0	1.8	-	-	1.8
A+	1.6	234.8	236.4	16.9	-	-	16.9
A	0.8	393.3	394.1	106.4	331.7	-	438.1
A-	-	459.6	459.6	3.9	-	-	3.9
BBB+	-	249.4	249.4	0.1	0.1	-	0.2
BBB	1.6	456.1	457.6	-	814.9	-	814.9
BBB-	-	53.7	53.7	-	-	-	-
BB+	-	2.8	2.8	-	-	-	-
BB	-	9.2	9.2	-	-	-	-
BB-	-	-	-	-	-	-	-
B+	-	-	-	-	-	-	-
B	-	-	-	-	-	-	-
B-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-
Not rated	0.0	18.5	18.5	89.5	0.0	-	89.5
Total	**3.9**	**3,865.1**	**3,869.0**	**141.3**	**1,146.7**	**-**	**1,288.0**

in EUR millions Rating 31/12/2015	AFS			L&R-Banks and other financial institutions			
	NPL / Impaired	*Standard*	*Total*	*Other L&R*	*Reverse Repo*	*Commercial Paper*	*Total*
AAA	-	618.4	618.4	-	-	-	-
AA+	-	266.6	266.6	-	-	-	-
AA	-	612.0	612.0	-	-	-	-
AA-	-	395.9	395.9	23.8	-	-	23.8
A+	1.8	259.1	260.9	17.6	480.6	-	498.2
A	0.9	357.0	357.8	164.3	414.5	-	578.8
A-	-	624.3	624.3	2.2	273.8	-	276.0
BBB+	-	434.3	434.3	0.2	507.3	-	507.5
BBB	1.6	235.7	237.2	-	159.5	-	159.5
BBB-	-	63.9	63.9	-	-	-	-
BB+	-	14.5	14.5	-	-	-	-
BB	-	14.7	14.7	-	-	-	-
BB-	-	-	-	-	-	-	-
B+	-	-	-	-	-	-	-
B	-	-	-	-	-	-	-
B-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-
Not rated	-	17.4	17.4	27.4	181.7	-	209.2
Total	**4.2**	**3,913.6**	**3,917.8**	**235.5**	**2,017.4**	**-**	**2,252.9**

[1] The information on rating is not available as such for Loans and Receivables to customers.

1.2.3.2. Government bonds by country

in EUR millions 31/12/2014	Available-for-sale financial assets (without accrued interest) Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Held-for-trading assets Nominal	Carrying amount
Austria	**110.5**	**125.8**	**9.0**	**-**	**-**	**-**	**-**
Maturing in 2015	1.0	1.0	0.0	-	-	-	-
Maturing in 2016 or 2017	27.0	29.3	1.7	-	-	-	-
Maturing in 2018 or 2019	55.5	62.9	4.5	-	-	-	-
Maturing in 2020 and later	27.0	32.5	2.8	-	-	-	-
Belgium	**196.0**	**211.0**	**5.7**	**-**	**-2.5**	**0.2**	**0.2**
Maturing in 2015	52.9	53.8	0.4	-	-	-	-
Maturing in 2016 or 2017	110.4	119.6	2.4	-	-2.5	-	-
Maturing in 2018 or 2019	26.0	29.5	2.1	-	-	-	-
Maturing in 2020 and later	6.8	8.1	0.8	-	-	0.2	0.2
Canada	**73.5**	**81.1**	**1.5**	**-**	**-4.4**	**-**	**-**
Maturing in 2015	-	-	-	-	-	-	-
Maturing in 2016 or 2017	-	-	-	-	-	-	-
Maturing in 2018 or 2019	10.0	10.9	0.2	-	-	-	-
Maturing in 2020 and later	63.5	70.2	1.3	-	-4.4	-	-
Czech republic	**28.0**	**33.4**	**0.7**	**-**	**-3.7**	**-**	**-**
Maturing in 2015	-	-	-	-	-	-	-
Maturing in 2016 or 2017	-	-	-	-	-	-	-
Maturing in 2018 or 2019	5.0	5.8	0.2	-	-	-	-
Maturing in 2020 and later	23.0	27.6	0.5	-	-3.7	-	-
France	**158.4**	**171.2**	**6.4**	**-**	**-**	**0.0**	**0.0**
Maturing in 2015	57.6	58.1	0.4	-	-	-	-
Maturing in 2016 or 2017	49.0	53.0	2.1	-	-	-	-
Maturing in 2018 or 2019	38.0	43.7	2.6	-	-	0.0	0.0
Maturing in 2020 and later	13.8	16.4	1.4	-	-	0.0	0.0
Germany	**89.7**	**95.4**	**3.5**	**-**	**-**	**0.0**	**0.0**
Maturing in 2015	32.0	32.5	0.1	-	-	-	-
Maturing in 2016 or 2017	45.6	48.9	1.9	-	-	-	-
Maturing in 2018 or 2019	2.1	2.3	0.1	-	-	-	-
Maturing in 2020 and later	10.0	11.8	1.4	-	-	0.0	0.0
Ireland	**68.5**	**75.9**	**5.7**	**-**	**-**	**0.0**	**0.0**
Maturing in 2015	15.0	15.1	0.0	-	-	-	-
Maturing in 2016 or 2017	20.0	22.0	1.2	-	-	-	-
Maturing in 2018 or 2019	31.4	36.3	4.1	-	-	-	-
Maturing in 2020 and later	2.1	2.5	0.5	-	-	0.0	0.0
Italy	**156.2**	**163.6**	**6.1**	**-**	**-**	**175.0**	**177.5**
Maturing in 2015	80.8	81.3	0.6	-	-	175.0	177.5
Maturing in 2016 or 2017	38.6	41.1	2.7	-	-	-	-
Maturing in 2018 or 2019	36.8	41.1	2.8	-	-	-	-
Maturing in 2020 and later	-	-	-	-	-	-	-
Luxembourg	**54.2**	**63.2**	**1.0**	**-**	**-7.5**	**0.1**	**0.1**
Maturing in 2015	-	-	-	-	-	-	-

Maturing in 2016 or 2017	-	-	-	-	-	-	-
Maturing in 2018 or 2019	-	-	-	-	-	-	-
Maturing in 2020 and later	54.2	63.2	1.0	-	-7.5	0.1	0.1
The Netherlands	**112.3**	**121.3**	**5.1**	**-**	**-1.6**	**0.0**	**0.0**
Maturing in 2015	33.0	33.3	0.3	-	-	-	-
Maturing in 2016 or 2017	32.0	35.0	1.5	-	-	-	-
Maturing in 2018 or 2019	22.1	24.5	1.6	-	-	-	-
Maturing in 2020 and later	25.2	28.5	1.8	-	-1.6	0.0	0.0
Qatar	**37.1**	**42.1**	**-0.1**	**-**	**-3.7**	**-**	**-**
Maturing in 2015	-	-	-	-	-	-	-
Maturing in 2016 or 2017	-	-	-	-	-	-	-
Maturing in 2018 or 2019	12.8	15.1	0.1	-	-1.4	-	-
Maturing in 2020 and later	24.3	27.0	-0.2	-	-2.3	-	-
Poland	**54.7**	**62.2**	**0.3**	**-**	**-5.8**	**-**	**-**
Maturing in 2015	-	-	-	-	-	-	-
Maturing in 2016 or 2017	14.1	14.6	0.1	-	-	-	-
Maturing in 2018 or 2019	40.6	47.6	0.2	-	-5.8	-	-
Maturing in 2020 and later	-	-	-	-	-	-	-
Slovakia	**47.1**	**52.4**	**1.1**	**-**	**-3.2**	**-**	**-**
Maturing in 2015	6.3	6.3	0.0	-	-	-	-
Maturing in 2016 or 2017	16.6	17.5	0.2	-	-0.2	-	-
Maturing in 2018 or 2019	-	-	-	-	-	-	-
Maturing in 2020 and later	24.2	28.6	0.9	-	-3.0	-	-
Spain	**53.2**	**53.8**	**0.0**	**-**	**-0.7**	**110.2**	**111.3**
Maturing in 2015	42.0	41.9	0.0	-	-	110.0	111.1
Maturing in 2016 or 2017	11.2	11.8	-0.0	-	-0.7	-	-
Maturing in 2018 or 2019	-	-	-	-	-	0.2	0.2
Maturing in 2020 and later	-	-	-	-	-	-	-
Supranational	**282.8**	**299.2**	**10.4**	**-**	**-4.1**	**1.8**	**1.9**
Maturing in 2015	51.4	51.7	0.1	-	-	-	-
Maturing in 2016 or 2017	142.8	149.8	5.4	-	-0.9	1.1	1.1
Maturing in 2018 or 2019	59.5	66.1	2.6	-	-3.2	0.2	0.2
Maturing in 2020 and later	29.1	31.6	2.4	-	-	0.6	0.6
Rest	**143.1**	**158.0**	**2.3**	**-**	**-2.6**	**35.0**	**35.0**
Maturing in 2015	11.3	11.7	0.0	-	-	35.0	35.0
Maturing in 2016 or 2017	44.0	45.5	0.3	-	-	-	-
Maturing in 2018 or 2019	31.6	36.0	0.5	-	-1.3	-	-
Maturing in 2020 and later	56.2	64.8	1.5	-	-1.4	0.0	0.0
TOTAL	**1,665.1**	**1,809.4**	**58.7**	**-**	**-39.9**	**322.4**	**326.1**

in EUR millions 31/12/2015	Available-for-sale financial assets Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Held-for-trading assets Nominal	Carrying amount
Austria	**109,5**	**121,5**	**7,2**	**-**	**-**	**-**	**-**
Maturing in 2016	-	-	-	-	-	-	-
Maturing in 2017 or 2018	62,2	67,3	3,3	-	-	-	-
Maturing in 2019 or 2020	45,2	51,7	3,5	-	-	-	-
Maturing in 2021 and later	2,1	2,5	0,5	-	-	-	-
Belgium	**139,1**	**148,3**	**4,2**	**-**	**-0,9**	**-**	**-**
Maturing in 2016	69,4	71,0	0,3	-	-0,9	-	-
Maturing in 2017 or 2018	36,0	39,2	1,0	-	-	-	-
Maturing in 2019 or 2020	29,7	33,4	2,2	-	-	-	-
Maturing in 2021 and later	4,1	4,7	0,6	-	-	-	-
Canada	**75,1**	**81,7**	**1,3**	**-**	**-3,8**	**-**	**-**
Maturing in 2016	-	-	-	-	-	-	-
Maturing in 2017 or 2018	-	-	-	-	-	-	-
Maturing in 2019 or 2020	25,1	27,4	0,8	-	-	-	-
Maturing in 2021 and later	50,0	54,3	0,5	-	-3,8	-	-
Czech republic	**25,0**	**29,2**	**0,6**	**-**	**-3,3**	**-**	**-**
Maturing in 2016	-	-	-	-	-	-	-
Maturing in 2017 or 2018	5,0	5,6	0,2	-	-	-	-
Maturing in 2019 or 2020	-	-	-	-	-	-	-
Maturing in 2021 and later	20,0	23,6	0,4	-	-3,3	-	-
France	**122,1**	**132,9**	**4,5**	**-**	**-**	**0,9**	**1,1**
Maturing in 2016	10,9	11,1	0,0	-	-	-	-
Maturing in 2017 or 2018	64,3	69,5	2,7	-	-	-	-
Maturing in 2019 or 2020	18,8	20,2	0,5	-	-	1,0	1,1
Maturing in 2021 and later	28,0	32,1	1,2	-	-	-0,0	-0,0
Germany	**70,7**	**75,6**	**2,5**	**-**	**-**	**-**	**-**
Maturing in 2016	22,2	22,6	-0,1	-	-	-	-
Maturing in 2017 or 2018	30,9	32,9	1,1	-	-	-	-
Maturing in 2019 or 2020	9,4	10,0	0,5	-	-	-	-
Maturing in 2021 and later	8,1	10,1	1,0	-	-	-	-
Ireland	**117,8**	**138,5**	**5,5**	**-**	**-3,1**	**0,0**	**0,0**
Maturing in 2016	5,0	5,1	0,0	-	-	-	-
Maturing in 2017 or 2018	45,7	51,3	4,1	-	-	-	-
Maturing in 2019 or 2020	67,1	82,2	1,4	-	-3,1	0,0	0,0
Maturing in 2021 and later	-	-	-	-	-	0,0	0,0
Italy	**102,2**	**110,9**	**4,5**	**-**	**-2,9**	**225,0**	**225,0**
Maturing in 2016	2,2	2,2	0,0	-	-	225,0	225,0
Maturing in 2017 or 2018	80,0	87,1	4,3	-	-1,7	-	-
Maturing in 2019 or 2020	20,0	21,6	0,2	-	-1,2	-	-
Maturing in 2021 and later	-	-	-	-	-	-	-
Japan	**22,9**	**25,5**	**1,0**	**-**	**-1,5**	**-**	**-**
Maturing in 2016	-	-	-	-	-	-	-
Maturing in 2017 or 2018	-	-	-	-	-	-	-
Maturing in 2019 or 2020	-	-	-	-	-	-	-
Maturing in 2021 and later	22,9	25,5	1,0	-	-1,5	-	-

Lithuania	**55,4**	**65,0**	**0,3**	**-**	**-7,9**	**-**	**-**
Maturing in 2016	-	-	-	-	-	-	-
Maturing in 2017 or 2018	7,0	7,7	0,1	-	-	-	-
Maturing in 2019 or 2020	48,4	57,3	0,2	-	-7,9	-	-
Maturing in 2021 and later	-	-	-	-	-	-	-
Luxembourg	**52,2**	**60,0**	**1,1**	**-**	**-6,5**	**-**	**-**
Maturing in 2016	-	-	-	-	-	-	-
Maturing in 2017 or 2018	-	-	-	-	-	-	-
Maturing in 2019 or 2020	52,2	60,0	1,1	-	-6,5	-	-
Maturing in 2021 and later	-	-	-	-	-	-	-
The Netherlands	**80,8**	**88,1**	**3,9**	**-**	**-1,4**	**-**	**-**
Maturing in 2016	2,4	2,4	0,0	-	-	-	-
Maturing in 2017 or 2018	37,3	40,0	1,3	-	-	-	-
Maturing in 2019 or 2020	10,4	11,1	0,6	-	-	-	-
Maturing in 2021 and later	30,7	34,6	1,9	-	-1,4	-	-
Qatar	**50,5**	**56,3**	**-0,1**	**-**	**-4,6**	**-**	**-**
Maturing in 2016	-	-	-	-	-	-	-
Maturing in 2017 or 2018	-	-	-	-	-	-	-
Maturing in 2019 or 2020	37,7	42,2	0,0	-	-3,3	-	-
Maturing in 2021 and later	12,9	14,1	-0,2	-	-1,4	-	-
Poland	**104,2**	**115,2**	**0,4**	**-**	**-8,0**	**-**	**-**
Maturing in 2016	11,1	11,1	0,0	-	-	-	-
Maturing in 2017 or 2018	10,9	12,4	0,2	-	-1,3	-	-
Maturing in 2019 or 2020	44,6	50,8	0,1	-	-3,5	-	-
Maturing in 2021 and later	37,6	40,8	0,1	-	-3,2	-	-
Slovakia	**56,1**	**62,1**	**1,0**	**-**	**-4,5**	**-**	**-**
Maturing in 2016	10,5	10,5	0,0	-	-0,0	-	-
Maturing in 2017 or 2018	6,1	6,3	0,1	-	-	-	-
Maturing in 2019 or 2020	21,2	24,8	0,8	-	-2,6	-	-
Maturing in 2021 and later	18,4	20,4	0,1	-	-1,9	-	-
Spain	**85,5**	**95,6**	**0,5**	**-**	**-1,3**	**110,0**	**111,8**
Maturing in 2016	4,4	4,4	0,0	-	-	110,0	111,8
Maturing in 2017 or 2018	21,1	22,5	0,2	-	-1,3	-	-
Maturing in 2019 or 2020	60,0	68,7	0,3	-	-	-	-
Maturing in 2021 and later	-	-	-	-	-	-	-
Supranational	**215,9**	**226,7**	**6,1**	**-**	**-3,3**	**0,2**	**0,2**
Maturing in 2016	86,6	88,3	1,6	-	-	-	-
Maturing in 2017 or 2018	50,6	52,4	0,9	-	-0,6	0,2	0,2
Maturing in 2019 or 2020	69,0	75,4	3,0	-	-2,7	0,0	0,1
Maturing in 2021 and later	9,7	10,6	0,6	-	-	-0,0	-0,0
Rest	**120,1**	**131,2**	**0,8**	**-**	**-2,2**	**25,0**	**25,0**
Maturing in 2016	33,7	34,1	0,0	-	-	25,0	25,0
Maturing in 2017 or 2018	4,6	4,9	0,0	-	-	-	-
Maturing in 2019 or 2020	79,6	89,6	0,6	-	-2,2	-	-
Maturing in 2021 and later	2,2	2,6	0,1	-	-	0,0	0,0
TOTAL	**1.605,0**	**1.764,2**	**45,3**	**-**	**-55,2**	**361,2**	**363,1**

1.2.3.3. Country Risk Management

The breakdown of Available-for-sale financial assets and Loans and receivables per countries is as follows:

in EUR millions	AFS			L&R-Banks				L&R-Customers
Country 31/12/2014	NPL/ Impaired	Standard	Total	Other L&R Banks	Reverse repo	Commercial Paper	Total	Total
France	1.6	510.1	511.6	38.3	331.6	-	369.9	317.7
Spain	-	115.3	115.3	0.1	763.2	-	763.3	124.5
Supranationals	-	693.6	693.6	-	-	-	-	-
Belgium	-	255.5	255.5	52.6	-	-	52.6	265.7
Germany	-	248.2	248.2	5.4	-	-	5.4	318.1(1)
The Netherlands	-	295.6	295.6	6.8	0.1	-	6.9	265.2
United Kingdom	-	208.5	208.5	4.1	-	-	4.1	275.7
Luxembourg	-	66.1	66.1	-1.6	0.0	-	-1.6	283.5
Italy	-	206.7	206.7	-	51.7	-	51.7	4.7
United States of America	2.4	123.1	125.4	14.5	-	-	14.5	6.8
Austria	-	141.7	141.7	-	-	-	-	0.0
Cayman Islands	-	-	-	-	-	-	-	130.0
Guernsey	-	-	-	-	-	-	-	126.1
Switzerland	0.0	45.7	45.7	0.6	-	-	0.6	60.0
United Arab Emirates	-	89.9	89.9	-	-	-	-	1.8
Ireland	-	77.3	77.3	8.6	-	-	8.6	0.0
Qatar	-	84.7	84.7	-	-	-	-	-
Canada	-	82.0	82.0	0.4	-	-	0.4	0.3
Poland	-	66.9	66.9	-	-	-	-	1.4
British Virgin Islands	-	0.0	0.0	-	-	-	-	65.3
Sweden	-	63.1	63.1	-	-	-	-	0.3
Monaco	-	0.0	0.0	-	-	-	-	61.0
South Korea	-	56.9	56.9	-	-	-	-	-
Finland	-	54.3	54.3	0.2	-	-	0.2	-
Slovakia	-	53.9	53.9	-	-	-	-	0.0
Denmark	-	38.4	38.4	7.9	-	-	7.9	3.8
Czech Republic	-	47.5	47.5	-	-	-	-	0.6
Norway	-	38.9	38.9	-	-	-	-	0.3
Japan	-	37.7	37.7	-	-	-	-	-
Seychelles	-	-	-	-	-	-	-	32.6
Hong Kong	-	28.7	28.7	-	-	-	-	0.0
Mexico	-	25.8	25.8	-	-	-	-	-
Brazil	-	24.1	24.1	-	-	-	-	0.4
Slovenia	-	15.9	15.9	-	-	-	-	-
Lithuania	-	13.3	13.3	-	-	-	-	0.0
Others (below EUR 10 million)	-	55.7	55.7	3.5	-	-	3.5	46.5
Total	**3.9**	**3,865.1**	**3,869.0**	**141.3**	**1,146.7**	**-**	**1,288.0**	**2,392.4**

(1) Out of which reverse repos: EUR 200 million

in EUR millions Country 31/12/2015	AFS			L&R-Banks				L&R-Clients
	NPL/ Impaired	Standard	Total	Other L&R Banks	Reverse repo	Commercal Paper	Total	Total
France	1.6	449.9	451.5	38.6	920.7	-	959.3	303.8
United Kingdom	-	248.4	248.4	38.6	133.7	-	172.3	659.9(1)
Germany	-	180.6	180.6	2.2	120.3	-	122.5	425.9(2)
Spain	-	183.6	183.6	-	400.2	-	400.2	131.9
Belgium	-	200.9	200.9	44.4	-	-	44.4	467.0
Supranationals	-	564.8	564.8	-	-	-	-	-
Netherlands	-	240.6	240.6	6.3	0.1	-	6.4	271.0
Luxembourg	-	61.1	61.1	14.8	181.7	-	196.5	246.6
Italy	-	157.1	157.1	-	260.6	-	260.6	0.0
United States of America	2.6	160.4	163.0	14.7	-	-	14.7	0.2
Ireland	-	139.9	139.9	-	-	-	-	0.5
Austria	-	136.6	136.6	-	-	-	-	0.5
United Arab Emirates	-	127.3	127.3	-	-	-	-	2.2
Poland	-	122.3	122.3	-	-	-	-	-
Qatar	-	111.6	111.6	-	-	-	-	-
Canada	-	102.0	102.0	-	-	-	-	0.3
Monaco	-	-	-	-	-	-	-	97.9
Sweden	-	76.1	76.1	-	-	-	-	0.0
Switzerland	-	16.7	16.7	8.8	-	-	8.8	45.9
South Korea	-	67.1	67.1	-	-	-	-	-
Lithuania	-	66.7	66.7	-	-	-	-	-
Slovakia	-	63.3	63.3	-	-	-	-	-
Finland	-	50.8	50.8	9.1	-	-	9.1	-
Norway	-	57.7	57.7	-	-	-	-	0.0
Denmark	-	49.2	49.2	2.6	-	-	2.6	3.6
China	-	2.8	2.8	50.5	-	-	50.5	0.1
Hong Kong	-	42.5	42.5	-	-	-	-	1.0
Slovenia	-	41.9	41.9	-	-	-	-	-
Mexico	-	40.9	40.9	-	-	-	-	-
Czech Republic	-	40.8	40.8	-	-	-	-	-
Japan	-	40.4	40.4	-	-	-	-	-
Brazil	-	22.7	22.7	-	-	-	-	0.4
Seychelles	-	-	-	-	-	-	-	23.0
Israel	-	11.6	11.6	-	-	-	-	-
Croatia	-	10.0	10.0	-	-	-	-	0.2
Isle of Man	-	-	-	-	-	-	-	10.0
Other (below EUR 10 million)	-	25.0	25.0	1.9	-	-	1.9	33.4
Total	**4.2**	**3,913.6**	**3,917.8**	**232.4**	**2,017.4**	**-**	**2,249.8**	**2,725.7**

(1) Out of which reverse repos: EUR 297.2 million
(2) Out of which reverse repos: EUR 290.0 million

2. Market Risk: Trading Risk

2.1. Qualitative information

2.1.1. Origin of trading risk

KBL *epb* group being Private Banking oriented, its trading activity mainly aims to support the core business activities. The trading positions reflect the necessary intermediation of the Head Office's Dealing Room, supporting client flows of the Group in terms of debt instruments, equity instruments, structured products, forex and deposits. Most of the instruments used by the Dealing Room are plain vanilla.

2.1.2. Trading risk policy

The risks incurred therefore are mainly short-term interest rate risk (treasury in the currencies of clients), medium/long-term interest rate risk (bond trading, particularly in EUR), price volatility risk (trading in structured products sold to private clients) and forex risk (spot and forward exchange rates in the liquid currency pairs used by clients)). Forex risk is the only trading activity for which subsidiaries are allowed to carry some residual positions relating to their customers' flows.

2.1.3. Trading decision making process / governance

Trading activities are concentrated in Luxembourg. According to the Risk Appetite Statement, the primary limits are granted by the Board Risk Committee.

2.1.4. Measurement and monitoring of trading risk

The system of primary limits in place at KBL *epb* is based on:

- nominal amounts for the activities subject to currency risk (Forex) and to price volatility risk (Equity, Third Party Funds, Structured Products, Special Bonds);
- 10 bpv limits for activities subject to interest rate risk (Treasury and Bond Desks).

These primary limits are supplemented by a structure of secondary limits allowing a more detailed analysis of the trading risks. Those secondary limits consist in concentration limits by currency and by time bucket as well as in limits by issue and issuer, based on their rating or on their market liquidity.

A Historical Value at Risk measure on each trading activity completes the limits framework.

2.1.5. Concentration Risk

Issuer concentration risk is strictly governed by conservative limits restricting the trading in non-investment grade debts and in illiquid equities, which leads to a well diversified trading portfolio.

As at 31 December 2015, the trading activity was diversified on 94 Corporate and Financial issuers with an average outstanding of +/- EUR 0.773 million, and a maximum exposure of EUR 7.07 million on Raiffeisen Bank.

The evolution of exposures related to each activity compared with their respective limits (primary and secondary), as well as the economic results and highlights, are reported daily to the Heads of Global Markets and of the Group Risk Control Function. They are also weekly reported to the KBL *epb* Executive Committee, on a monthly basis to the ALCO and on a quarterly basis to the Group Board Risk Committee.

2.2. Quantitative information

As at 31 December 2014 and 2015, the usage of limits in the Trading activities is as follows (KBL *epb* group):

in EUR millions	Limit in 10 bpv *(1)*	Oustanding 31/12/2014	Maximum observed in 2015	Average observed in 2015	Oustanding 31/12/2015
Treasury	2.5	0.5	2.2	1.1	0.9
Bond	0.8	0.2	0.6	0.2	0.1

(1) BPV 10 bps oustanding corresponds to the sum in abs value of the BPV 10 bps in each currency.

in EUR millions	Limit in Nominal Amount *(3)*	Oustanding 31/12/2014	Maximum observed in 2015	Average observed in 2015	Oustanding 31/12/2015
Forex (bullions included)	20.0	4.0	6.5	3.2	2.9
Lux Stock Exchange *(2)*	3.0	0.1	0.6	0.0	0.0
Bond Special	3.0	1.0	3.1	0.8	1.1
Structured Product	110.0	44.7	57.6	49.8	50.2

(2) Lux Stock Exchange encompasses the former "Equity "and "Third Party Funds".
(3) Limits after reallocation approved by BRC in February 2014.

Outstanding in each activity remained well below the authorised limits over the year 2015, except for 1 occasional case: a 1 day overrun (of EUR 54 k), in the Bond Special activity due to the late repurchase of an EIB issue.

The HVaR observed over the year 2015 amounted to EUR 2.3 million (average) and to EUR 2.3 million as at end of year 2015.

3. Market Risk: ALM Risk

3.1. Qualitative information

3.1.1. Origin of ALM risks

The core activities of a private bank entail little ALM risks [2] compared to a retail bank: most of the client assets under management are securities or funds which are off-balance sheet items inducing no ALM risks. Most short-term client cash deposits offer variable rates linked with money market rates and the same applies to Lombard/mortgage loans to customers. When fixed rates are granted for loans, hedging swaps are contracted.

As a consequence, ALM risks are mainly entailed by security portfolios set up within the frame of the ALM policy being:

- portfolio of high grade bonds dedicated to the reinvestment of the free capital, and of the most stable part of fixed rate sight deposits and savings accounts;
- portfolios dedicated to the reinvestment of other stable liquidities, looking for the right balance between interest rate risk, credit spread risk and return.

[2] The ALM risk is defined as the market risks induced by the balance sheet, except the trading activity.

The ALM equity risk is induced by an investment portfolio invested in direct lines of equities or in UCI shares. The portfolio held in KBL *epb* (Luxembourg) is managed along Group ALCO's guidelines. Some equities portfolios exist in the subsidiaries, in order to meet specific needs (pension obligations in Merck Finck & Co a.o.). Transactions in these portfolios are performed after validation of the local management and of Group ALM.

KBL *epb* group is not exposed to any ALM forex risk as no active foreign exchange exposure is taken (assets are funded in their respective currencies).

3.1.2. ALM decision making process/governance

The ultimate responsibility for the ALM activity of KBL *epb* group is held by the monthly Group ALCO Committee, which is an Executive Committee extended to the representatives of the Group ALM Function, of the Group Risk Control Function, of Global Markets, of Finance, in addition to the Chief Investment Officer.

The ALCO validates a.o. strategies in terms of management of the gap between resources and utilisations, in terms of Return on Equity enhancement, management of the structural liquidity and mitigation of the related risks.

Those strategies are proposed by the Group ALM Function which has the responsibility for the preparation of the ALCO meetings, a.o for the topics which are submitted to its decisions. The Function is also in charge of the day-to-day implementation of the ALCO decisions. When they have a Group dimension, it has to ensure their implementation within the limits of the governance constraints in place.

Under this structure, the Group Risk Control Function endorses a role of second level control entity, issuing opinions on the proposals and monitoring the risks related to the ALM activity on a recurring basis.

3.1.3. ALM policy

A document entitled *'Investment Policy and ALM framework'* describes a.o. the ALM objectives, governance and constraints (credit risk, liquidity ...). It is in line with the Risk Appetite Statement expressed by the Board of Directors (see below).

3.1.4. Measurement and monitoring of ALM risks

The Risk Appetite Statement, at least reviewed on a yearly basis, expresses the Board of Directors' risk appetite for ALM interest rate risk, credit spread risk and equity risk, mainly through limits on Value at Risk indicators, sensitivity measures and global outstanding at KBL *epb* group level.

Regarding the interest rate risk:

- one limit is based on the regulatory 200 bpv (basis point value) limit for all banking book positions of KBL *epb* group. While the regulatory limit amounts to 20% of own funds, the BRC limit has been fixed at 18%; the 200 bpv sensitivity equals 11.7% of own funds as at 31 December 2015 (31 December 2014: 11.4 %);
- the other limit is expressed via an Interest Rate Value at Risk 99% - 1 year, which amounts to EUR 33 millions as at 31 December 2015 for a Risk Appetite limit of EUR 150 million (31 December 2014 : EUR 45 million) for KBL *epb* group.

Regarding the equity (price) risk, the Risk Appetite is expressed in terms of maximum Value at Risk, stop losses and maximum size for listed equities and for alternative equity investments for the whole Group.

The Equity Value at Risk 99% - 1 year amounts to EUR 35 million as at 31 December 2015 (EUR 67 million as at 31 December 2014) for a Risk Appetite limit of EUR 150 million for KBL *epb* group.

3.2. Quantitative information

3.2.1. Interest rate

The sensitivity of the economic value of the balance sheet to interest rates (impact of a parallel increase by 1% of the interest risk curve) is as follows for KBL *epb* group:

in EUR millions 100 bpv as at 31/12/2014	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total 100 bpv	Carrying amount
Financial assets	**-5**	**-4**	**-30**	**-28**	**-51**	**-118**	**10,511**
Held-for-trading	-0	-0	-	-	-	**-0**	759
Designated at fair value through profit or loss	-0	-	-	-	-	**-0**	1,947
Available-for-sale financial assets	-0	-3	-25	-23	-41	**-92**	4,090
Loans and receivables	-2	-1	-1	-4	-10	**-19**	3,692
Hedging derivatives	-2	-0	-4	-0	-	**-6**	23
Financial liabilities	**4**	**3**	**18**	**18**	**36**	**82**	**10,915**
Held-for-trading	0	0	1	4	2	**7**	271
Designated at fair value through profit or loss	-	-	-	-	-	**-**	1,943
Measured at amortised cost (excluding deposits from CB)	3	2	6	4	6	**21**	8,305
Subordinated liabilities	0	0	2	0	0	**3**	231
Hedging derivatives	0	1	9	10	29	**49**	165
Other liabilities (Vitis Life Br21)	0	0	1	1	1	**3**	
Gap	**-1**	**-2**	**-11**	**-10**	**-15**	**-35**	

in EUR millions 100 bpv as at 31/12/2015	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total 100 bpv	Carrying amount
Financial assets	**-4**	**-3**	**-21**	**-42**	**-41**	**-112**	**9,817**
Held-for-trading	-0	-0	-	-	-	**-0**	714
Designated at fair value through profit or loss	-0	-	-	-	-	**-0**	0
Available-for-sale financial assets	-0	-2	-18	-38	-33	**-92**	4,054
Loans and receivables	-1	-1	-2	-3	-8	**-16**	5,032
Hedging derivatives	-3	-0	-1	-0	-	**-4**	17
Financial liabilities	**4**	**2**	**14**	**25**	**35**	**80**	**9,807**
Held-for-trading	0	0	2	2	2	**6**	261
Designated at fair value through profit or loss	-	-	-	-	-	**-**	-
Measured at amortised cost (excluding deposits from CB)	4	1	5	4	6	**20**	9,146
Subordinated liabilities	0	0	0	0	-	**0**	216
Hedging derivatives	0	1	7	18	27	**54**	184
Other liabilities (Vitis Life Br 21)	-	-	-	-	-	**-**	
Gap	**-0**	**-1**	**-7**	**-17**	**-7**	**32**	

The sensitivity of the interest margin of KBL *epb* group to the interest rates (impact of a parallel increase by 1 % of the interest rate risk curve) is as follows:

in EUR millions Sensitivity 100 bpv Shift 31/12/2014	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total impact
Financial assets	-4.0	-4.8	-17.4	-8.3	-7.5	**-42.0**
Financial liabilities	4.0	3.2	11.5	4.7	5.6	**29.0**
Net impact	**0.0**	**-1.6**	**-5.9**	**-3.5**	**-2.0**	**-13.0**

in EUR millions Sensitivity 100 bpv Shift 31/12/2015	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total Impact
Financial assets	-4.2	-4.6	-14.7	-11.3	-6.1	**-41.0**
Financial liabilities	4.9	2.7	8.8	6.1	5.5	**27.9**
Net Impact	**0.6**	**-1.9**	**-5.9**	**-5.2**	**-0.6**	**-13.0**

3.2.2. Equity Risk

3.2.2.1. Sensitivity of equity risk

Regarding the equity risk, the impact of a decrease of 25 % on both the income statement (impairment) and the equity AFS revaluation reserve (excluding Equity instruments at cost) is as follows for KBL *epb* group:

in EUR thousands

31/12/2014	**Current situation [1]**	***Impact of a markets' decrease of 25%***	**Stock after decrease**
Marked-to-Market value	221,264	*-55,316*	165,948
Gain/Loss	32,795	*-55,316*	-22,521
Equity impact (AFS reserve)	32,797	*-55,084*	-22,286
Income statement impact (impairment)	-2	*-232*	-234

[1] Some Equity instruments classified as available-for-sale financial assets are not covered here.

in EUR thousands

31/12/2015	**Current situation [1]**	***Impact of a markets' decrease of 25%***	**Stock after decrease**
Marked-to-Market value	136,660	*-34,165*	102,495
Gain/Loss	14,488	*-34,165*	-19,677
Equity impact (AFS reserve)	14,488	*-33,149*	-18,662
Income statement impact (impairment)	-	*-1,016*	-1,016

[1] Some Equity instruments classified as available-for-sale financial assets are not covered here.

The global ALM equity exposure decreased in 2015. Indeed, sales were performed in line with the recommendations of the Group Asset Allocation Committee ("GAAC") which supportive role was reinforced in the decision making process.

3.2.2.2. Concentration of equity risk

The decision to increase/decrease the proportion of equity in the ALM portfolio is taken at the ALCO level (within the limits agreed by the BRC) taking into consideration macro and fundamental analysis as well as convictions from the Group Asset Allocation Committee. Such analysis also influences the relative weights of Europe, USA and Emerging Markets. Within the various regions, an adequate sectorial diversification is looked for. Concentration limits are expressed in absolute amounts and in percentage of daily volume traded.

Next to this strategic investment policy, the Bank also acts as seed investor when new home investment funds are launched.

Following the principles presented above, the breakdown of the whole Equity portfolio of KBL *epb* group (direct lines and Funds) per nature and per region shows a prominent pan-European part as at end of December 2015:

in EUR millions

REGION / NATURE	**31/12/2015**	
Europe (Equity Funds + direct lines)	4.4	4%
Europe (Diversified Funds)	8.6	8%
Europe (Fixed Income Funds)	0.0	0%
World (Equity Funds + direct lines)	20.7	18%
World (Diversified Funds)	55.9	50%
World (Fixed Income Funds)	0.0	0%
United States (Equity Funds + direct lines)	22.2	20%
United States (Fixed Income Funds)	0.0	0%
Asia (Equity Funds + direct lines)	-	-
TOTAL	**111.9**	**100%**
Other Equities	24.8	
Total Equities portfolios	**136.7**	

There are no direct lines in total Equity portfolio as at 31 December 2015, further to sales performed in line with Group ALCO decisions.

Furthermore, as at 31 December 2015, the individual exposures entailing equity risk, except seed money and pure bonds funds, do not exceed EUR 22 million per Fund and EUR 5 million per direct line (with historical positions being the most significant).

4. Liquidity risk

4.1. Qualitative information

4.1.1. Origin of liquidity risk

The Bank as a Group has a large and stable funding base due to the natural accumulation of deposits from its two core businesses: Private Banking and Institutional & Professional Services (IPS), which on the other hand consume relatively little liquidity. The overall funding gap is structurally and globally positive and KBL *epb* group is a net lender recycling structural liquidity positions in the interbank market.

4.1.2. Liquidity decision making process/governance

Like for Assets and Liabilities Management, the Group ALCO Committee has the final responsibility for the Liquidity Management of KBL *epb* group. The Group ALM Function proposes strategies – with the approval of the local Management/ALCO Committee - for the management of long term liquidity (putting, a.o. a strong emphasis on ECB eligible as well as Basel III eligible bonds), while the short term liquidity management is delegated to the Treasurer within strict limits (see trading risk above).

The Group Risk Control Function acts as a second level control entity, issuing opinions on investment proposals and monitoring liquidity risk on a daily basis (through a set of indicators briefly described in section 4.1.4).

4.1.3. Liquidity policy

The current policy applied by KBL *epb* group is to centralise the placement of all liquidity surpluses at the Head Office level. However, when local regulatory constraints exist (large exposures regime, liquidity constraints), the subsidiaries' liquidity is collateralized or is reinvested in local ALM portfolios under the supervision of both Group ALM and Group Risk Control.

At the Head Office, the stable part of global funding is reinvested in ALM portfolios following a conservative strategy (a.o. respecting minimum European Central Bank/Basel III eligibility and rating criteria) and the unstable part of global funding is replaced in the short-term interbank market, largely through reverse repo transactions.

4.1.4. Measurement and monitoring of liquidity risk

The Board Risk Committee has expressed its Risk Appetite in terms of liquidity risk, by imposing limits for each entity of the Group on the Basel III ratios (LCR and NSFR), and on the Liquidity Excess resulting from internal stress tests. The latter are run on a quarterly basis with the aim to assess the ability of KBL *epb* group to survive a severe liquidity crisis during a 3-month time period without affecting its business model.

As the excess liquidity throughout the Group is centralised at KBL *epb*'s Treasury Department (under regulatory constraints), KBL *epb*'s operational liquidity situation is daily monitored by Group Market Risk Control through operational liquidity indicators and reported to the Group Treasurer. Main operational indicators are:

- a contractual liquidity gap of up to five days, as if the activity was to be continued (no stress test). This report is also sent to the BCL;
- the stock of available liquid assets;
- a daily estimate of the Basel III Liquidity Coverage Ratio, which stood at 90.3% for KBL *epb* as at 31 December 2015 (for a regulatory limit of 70% as at 01/01/2016). The ratio stood at 114.8 % for KBL *epb* group;
- the value of quantitative indicators, which can potentially trigger the Liquidity Contingency Plan (the Plan consists in various actions depending on the gravity - minor, major - of the liquidity crisis).

As far as structural indicators are concerned, the 'Private Banking customers Loan-to-Deposit ratio (LTD)' is computed on a monthly basis for KBL *epb* group. As at 31st December 2015, it stood at 28.1%, confirming the excellent liquidity situation of the Group as natural deposit collector.

In addition, liquidity stress tests are run on a quarterly basis with the aim to assess the ability of KBL *epb* group to survive a severe liquidity crisis during a 3-month time period without affecting its business model.

4.2. Quantitative information

4.2.1. Maturity analysis of liquid stock

The maturity analysis of financial assets held for managing liquidity risk (unencumbered marketable assets) is as follows:

in EUR millions

Marketable assets 31/12/2014	Stock of available assets	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years
Initial stock of available assets		**5,075.4**	**3,776.3**	**3,242.6**	**1,725.1**	**891,2**
CB eligible	3,833.1	-921.8	-427.4	-1,202.0	-645.9	-673.9
Marketable securities	1,242.3	-377.3	-106.3	-315.5	-188.1	-173.2
Total	5,075.4	-1,299.1	-533.7	-1,517.5	-834.0	-847.0
Residual stock of available assets	**5,075.4**	**3,776.3**	**3,242.6**	**1,725.1**	**891.2**	**44.1**

in EUR millions

Marketable assets 31/12/2015	Stock of available assets	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years
Initial stock of available assets		**6,408.9**	**4,030.0**	**3,167.7**	**1,807.5**	**741.5**
CB eligible	4,897.0	-1,897.6	-743.9	-1,003.4	-828.3	-424.3
Marketable securities	1,511.8	-481.2	-118.4	-356.8	-237.8	-223.8
Total	6,408.9	-2,378.8	-862.3	-1,360.2	-1,066.1	-648.0
Residual stock of available assets	**6,408.9**	**4,030.0**	**3,167.7**	**1,807.5**	**741.5**	**93.4**

4.2.2. Maturity analysis of financial assets and liabilities

The analysis by remaining contractual maturity for financial assets and liabilities is as follows:

in EUR millions

31/12/2014	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 year and 3 years**	**Between 3 years and 5 years**	**More than 5 years**	**Undetermined**	**Total**
Cash and balances with central banks and other demand deposits	**1,360**	**-**	**-**	**-**	**-**	**-**	**1,360**
Financial assets	**2,631**	**1,077**	**2,319**	**1,049**	**1,262**	**2,173**	**10,511**
Held-for-trading	259	363	54	10	68	5	**759**
Designated at fair value through profit or loss	-	-	-	-	0	1,947	**1,947**
Available-for-sale financial assets	310	498	1,849	467	746	221	**4,090**
Loans and receivables	2,062	216	393	572	448	-	**3,692**
Hedging derivatives	0	0	23	-	0	-	**23**
Other assets	**-**	**-**	**-**	**-**	**-**	**575**	**575**
TOTAL ASSETS	**3,991**	**1,077**	**2,319**	**1,049**	**1,262**	**2,748**	**12,446**
Deposits from central banks	**0**	**-**	**-**	**-**	**-**	**-**	**0**
Financial liabilities	**8,332**	**156**	**328**	**36**	**120**	**1,943**	**10,915**
Held-for-trading	179	31	17	-	43	0	**271**
Designated at fair value through profit or loss	-	-	-	-	-	1,943	**1,943**
Measured at amortised cost (excluding subordinated liabilities)	8,134	118	46	7	1	-	**8,305**
Subordinated liabilities	14	2	215	1	0	-	**231**
Hedging derivatives	5	5	50	29	76	-	**165**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**584**	**584**
Provisions						45	45
Other liabilities						539	539
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**947**	**947**
TOTAL LIABILITIES	**8,332**	**156**	**328**	**36**	**120**	**3,474**	**12,446**
GAP	**-4,341**	**921**	**1,991**	**1,013**	**1,142**	**-725**	

Of which derivatives:

	Cashflows by bucket						
31/12/2014	**Less than 3 months EUR thousands**	**Between 3 months and 1 year EUR thousands**	**Between 1 year and 3 years EUR thousands**	**Between 3 years and 5 years EUR thousands**	**More than 5 years EUR thousands**	**Total EUR thousands**	**Carrying amount EUR millions**
Inflows	**4,949**	**3,021**	**75**	**69**	**82**	**8,197**	**4,334**
Interest rate	44	60	63	24	18	**209**	**4,093**
Equity	0	0	0	0	0	**0**	**68**
Currency	4,905	2,961	12	45	64	**7,987**	**172**
Other	-	-	-	-	-	**-**	**1**
Outflows	**-4,992**	**-2,992**	**-123**	**-104**	**-100**	**-8,312**	**401**
Interest rate	-47	-81	-93	-41	-26	**-289**	**177**
Equity	-0	-0	-0	-0	-0	**-0**	**68**
Currency	-4,946	-2,911	-30	-62	-75	**-8,023**	**155**
Other	-	-	-	-	-	**-**	**1**
Gap - Derivatives	**-43**	**-29**	**-48**	**-35**	**-19**	**-116**	

in EUR millions 31/12/2015	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Undetermined	Total
Cash and balances with central banks and other demand deposits	**697**	**-**	**-**	**-**	**-**	**-**	**697**
Financial assets	**4,041**	**1,096**	**1,919**	**1,547**	**1,075**	**139**	**9,817**
Held-for-trading	176	390	43	22	81	2	**714**
Designated at fair value through profit or loss	-	-	-	-	-	0	**0**
Available-for-sale financial assets	218	535	1,434	1,134	597	137	**4,054**
Loans and receivables	3,635	170	440	390	397	0	**5,032**
Hedging derivatives	13	1	2	1	0	-	**17**
Other assets	-	-	-	-	-	560	**560**
TOTAL ASSETS	**4,738**	**1,096**	**1,919**	**1,547**	**1,075**	**699**	**11,074**
Deposits from central banks	**0**	**-**	**-**	**-**	**-**	**-**	**0**
Financial liabilities	**9,381**	**135**	**93**	**81**	**66**	**52**	**9,807**
Held-for-trading	179	23	3	2	54	0	**261**
Designated at fair value through profit or loss	-	-	-	-	-	-	**-**
Measured at amortised cost (excluding subordinated liabilities)	8,980	107	52	7	0	-	**9,146**
Subordinated liabilities	213	0	2	1	-	-	**216**
Hedging derivatives	9	5	36	71	63	-	**184**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**339**	**339**
Provisions	-	-	-	-	-	96	**96**
Other liabilities	-	-	-	-	-	243	**243**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**929**	**929**
TOTAL LIABILITIES	**9,381**	**135**	**93**	**81**	**66**	**1,319**	**11,074**
GAP	**-4,643**	**960**	**1,827**	**1,466**	**946**	**-556**	

Of which derivatives:

31/12/2015	Less than 3 months EUR thousands	Between 3 months and 1 year EUR thousands	Between 1 year and 3 years EUR thousands	Between 3 years and 5 years EUR thousands	More than 5 years EUR thousands	Total EUR thousands	Carrying amount EUR millions
Inflows	**4,931**	**2,984**	**43**	**63**	**73**	**8,094**	**247**
Interest rate	26	22	31	21	12	**113**	**29**
Equity	0.0	0.1	0.1	0.0	-	**0.2**	**82**
Currency	4,905	2,962	12	42	61	**7,981**	**135**
Other	-	-	-	-	-	**-**	**-**
Outflows	**-4,976**	**-2,950**	**-91**	**-92**	**-84**	**-8,194**	**443**
Interest rate	-32	-44	-68	-40	-17	**-201**	**155**
Equity	-0.0	-0.1	-0.1	-0.0	-	**-0.2**	**82**
Currency	-4,944	-2,907	-23	-52	-67	**-7,993**	**200**
Other	-	-	-	-	-	**-**	**7**
Gap - Derivatives	**-45**	**34**	**-48**	**-29**	**-11**	**-100**	

4.2.3. Concentration risk

The concentration risk the Bank is facing in terms of liquidity is twofold:

- potential concentration in assets in which the excess liquidity is reinvested: this risk is monitored according to the credit risk limit system (as described above);
- potential concentration in funding sources: this risk is monitored through 2 indicators that are quarterly reported to the BRC :

  . relative weight of the top 20 private client deposits for KBL *epb* group,

  . list of all significant counterparties in terms of funding sources (>1% of total liabilities, according to Basel III definition).

BIL

1. INTRODUCTION

1.1. KEY EVENTS OF 2015

Corporate structure and risk profile

Since the end of 2014 important strategic initiatives have been undertaken at a group-wide level, impacting thus naturally BIL group's corporate structure and risk profile. All those initiatives have been carefully followed by the Bank's Risk Management department whose main objective is to guide their implementation by ensuring, on an ongoing basis, that the related risks are under control and compatible with the institution's risk appetite.

Main events having impacted the Bank's risk profile evolution during 2015 are described in the annual report of BIL, section 1 of the "Business Review and Results".

The ongoing implementation of new regulatory requirements together with the participation to the first supervisory review exercise conducted under the Single Supervisory Mechanism constituted the main Risk Management challenges faced by the institution during the year.

1.2. MAIN REGULATORY CHANGES OCCURRED IN 2015

In 2015, BIL continued to invest time and resources in making sure that it is and will always be compliant with regulatory standards.

In the context of the Banking Union and following the setting up on November 4, 2014 of the Single Supervisory Mechanism (SSM), the Bank has been subject this year to its first supervisory review exercise under the European Central Bank (ECB). All along this year, regular meetings on various regulatory, governance and risk issues were held with the Bank's Joint Supervisory Team (JST). Topics addressed during these meetings covered both general themes (e.g. Internal governance, Internal Capital Adequacy Assessment Process (ICAAP)) while others were related to more specific issues (e.g. Liquidity Risk).

Along with the evolution of the supervisory practices, the ongoing implementation of both CRR (Regulation 575/2013/UE) and CRD IV requirements remained one of the most challenging tasks undertaken by the Risk Management department.

In January, delegated Regulation 2015/61/UE on Liquidity Coverage Ratio (LCR) and delegated Regulation 2015/62/UE on Leverage Ratio have been published in the Official Journal of the European Union implying convergence of the Bank's practices towards new standards. Subsequently, the European Banking Authority (EBA) published in June 2015 Implementing Technical Standards (ITS), submitted to the approval of the European Commission, related to the supervisory reporting of both LR and LCR. The implementation of the corresponding reports was part of the tasks undertaken at BIL group's level.

On July 23, 2015, the CRD IV has been transposed into Luxembourg law implying for the Bank to disclose for the first time its semi-annual Pillar III report.

The Directive 2014/59/UE, also called Bank Recovery and Resolution Directive (BRRD), has been fully implemented into Luxembourg law in December. In this context, the Bank has already participated to several exercises required by its supervisors in 2015.

Among others, the Bank's first Recovery Plan has been submitted to and approved by its Board of Directors. As a reminder, this exercise aims at ensuring that the Bank is well prepared to meet the challenges that may arise from potential future crises through several possible scenarios. Moreover and when it comes to the resolution side of the BRRD, the Bank has participated, through its response to CSSF Circular 15/610 requirement, to an ad-hoc exercise aiming at collecting information for the set up of its Resolution Plan and the calculation of the Minimum Requirements for own funds and Eligible Liabilities (MREL). Furthermore, a few meetings were held along the year with the Bank's Resolution Authorities on these topics.

Finally, it is also worth noting that BIL group has also participated to various ad-hoc regulatory exercises among which EBA's Transparency Exercise, the Quantitative Impact Study (QIS) on the Definition of Default or the EIOPA stress test on pension funds.

2. Risk Management missions, organisation and governance

2.1. Missions

The main missions of the Risk Management function are the following:

- **To ensure that all risks are under control** by identifying, measuring, assessing, mitigating and monitoring them on an ongoing basis: Global risk policies and procedures define the framework for controlling all types of risks by describing the methods used and the defined limits, as well as the escalation procedures in place;
- **To provide the Authorised Management, the Board Risk Committee and the Board of Directors** with a comprehensive, objective and relevant overview of the risks;
- **To ensure that the risk limits are compatible** with the Bank's strategy, business model and structure through an effective risk appetite framework, which defines the level of risk the Bank is willing to take in order to achieve its strategic and financial goals;
- **To ensure compliance with banking regulation requirements** by submitting regular reports to the supervisory bodies, taking part in regulatory discussions and analysing all new requirements related to Risk Management that could affect the regulatory monitoring of Bank's activities.

2.2. Risk Management Governance

General principles

According to Circular CSSF 12/552, as amended, the Risk Management function is one of the three distinct internal control functions (together with Internal Audit and Compliance).

BIL group's Risk Management framework is based on a decisional process allowing a prudent and sound management of risks. The decisional process is defined by:

- The responsibilities of the Board of Directors, the Board Risk Committee, the Board Audit and Compliance Committee and the Management Board and their roles in decision-making and risk management;
- Risk committees of which at least one member of the Management Board is a member, and the mission of these committees in decision-making;
- Other committees that are formalised meetings whose members are experts and operational teams, and their missions in decision-making;
- The maintenance of a set of policies, guidelines and procedures explaining the activities, the definition of limits for risk-taking by operational units, consistent with the Bank's risk appetite, the process of detection, assessment and measurement, reporting, management and control of the risks induced by the Bank's activities.

BIL's entities internal control functions report from both a hierarchical and a functional point of view for branches and from a functional point of view for subsidiaries to the corresponding control functions at BIL Head Office level.

BIL group's Risk Management governance is based on a clear decisional process framed by the following committees:

Board of Directors

Among its missions, the Board of Directors is responsible for setting and overseeing the overall business strategy, the overall risk strategy and policy including the risk tolerance/appetite and the Risk Management framework.

According to CSSF circular 12/552, as amended, the Board of Directors makes a critical assessment of the internal governance mechanisms and approves them by taking into account:

- The balance between the incurred risks, the ability of the establishment to manage these risks, own funds and internal and regulatory reserves;
- The strategies and guiding principles with a view to improve and adapt them to internal and external, current and anticipated changes;
- The manner the Management Board meets its responsibilities (for instance by ensuring corrective measures are implemented);
- The effectiveness and efficiency of internal control mechanisms;
- The adequacy of the organisational and operational structure.

These assessments may be prepared by dedicated internal committees and be notably based on the information received from the Management Board, the ICAAP report and the summary reports of the internal control functions which the Board of Directors is called upon to approve on this occasion.

Board Risk Committee

The Board Risk Committee is responsible for proposing BIL's group risk policy to the Board of Directors. This Committee also ensures that BIL's activities are consistent with its risk profile and gives positive recommendation to the Board of Directors as regards the level of global limits for the main risk exposures.

Among its roles, the Board Risk Committee reviews and recommends changes to the BIL group Risk Management framework and the global risk limits and capital allocation to the Board of Directors; it reviews the global BIL group risk exposure, major Risk Management issues and capital adequacy requirements covering all of the group's risks; it reviews, assesses and discusses with the external auditor on an annual basis any significant risk or exposure and relevant risk assessments; and it also reports regularly to the Board of Directors and makes such recommendations with respect to any of the above or other matters.

The Board Risk Committee is a specialised committee supporting the Board of Directors on subjects related to risks.

Board Audit & Compliance Committee

Among its missions, the Board Audit & Compliance Committee monitors the effectiveness of the Bank's internal control, internal audit, and risk management framework; it aims also at giving an independent assistance to the Board of Directors on the supervisory of the Bank's management. This committee ensures that the Management Board does a follow-up of the recommendations of the external auditors. This committee also reviews and discusses the implementation and the adequacy of the key accounting policies, practices and financial reporting processes.

Internal Control Committee

The Internal Control Committee is a sub-committee of the Management Board which coordinates the activities of the Bank's three Internal Control functions (i.e. Internal Audit, Compliance, and Risk). It decides on transversal issues related to Internal Control and provides a common position from Internal Control functions.

Management Board

The Management Board is responsible for implementing and establishing a safe and sound management, in accordance with the principles and objectives established by the Board of Directors.

According to Circular CSSF 12/552 (as amended), the Management Board "*is in charge of the effective, sound and prudent day-to-day business (and inherent risk) management. This management shall be exercised in compliance with the strategies and guiding principles laid down by the board of directors and the existing regulations (...)*".

Moreover, the Management Board informs, on a regular basis and at least once a year, the Board of Directors of the implementation, adequacy, effectiveness and compliance with the internal governance arrangements.

Finally, once a year, the Management Board confirms the compliance with CSSF circular 12/552, as amended. The information to be provided is submitted to the CSSF together with the annual accounts to be published.

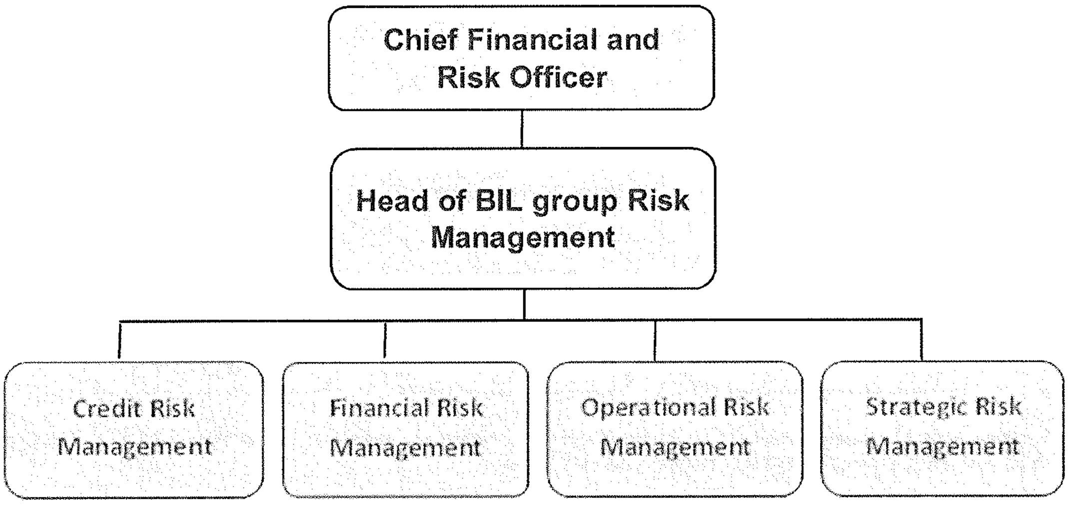
The Management Board ensures that rigorous and robust processes for risk management and internal controls are in place, and that the Bank is sufficiently staffed to be able to implement the safe and sound management of its activities. These processes include the establishment of strong risk governance.

Risk Committees

Risk committees are constituted and receive their mandate from the Management Board within a precise and defined scope. They facilitate the development and implementation of sound practices of governance and decisions. Their mandate and roles, their members and other rules settling how they are functioning, are described in a specific form. At least one member of the Management Board is part of the Risk Committees. If these Risk Committees make decisions related to the overall risk process, the Board of Directors and the Management Board are not exempted from their responsibilities.

Risk Management organisation

In order to ensure a sound management of risk and develop an integrated risk culture, the Bank has set up an effective Risk Management organisation, in adequacy with its activities, encompassing the relevant risks resulting from its activities.

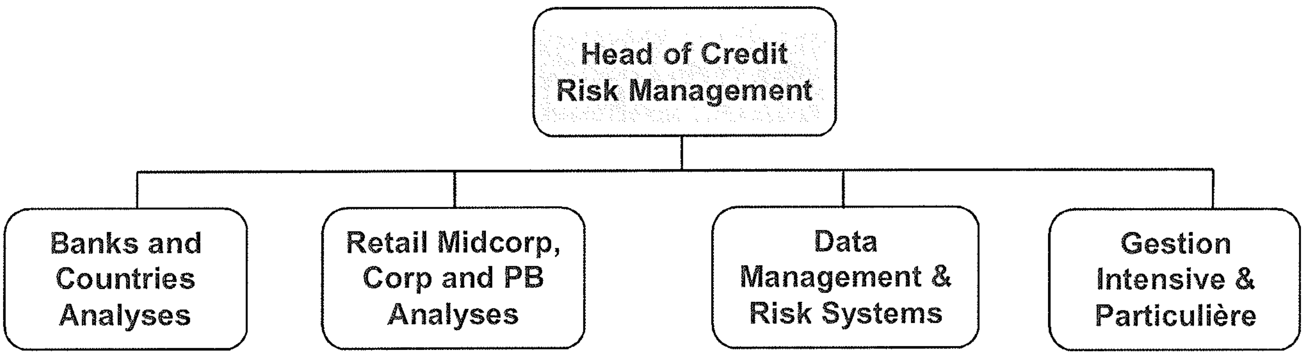


At the Management Board level, the overall Risk Management framework remains under the Chief Risk Officer (CRO)'s responsibility, and the CRO is responsible for providing any relevant information on risks to the Management Board, enabling the Bank's overall risk profile to be defined and managed.

The CRO delegates the day-to-day supervision of the department to the Head of BIL group Risk Management.

In terms of organisation, BIL group's Risk Management department is based on four specific units described in greater detail below.

Credit Risk Management



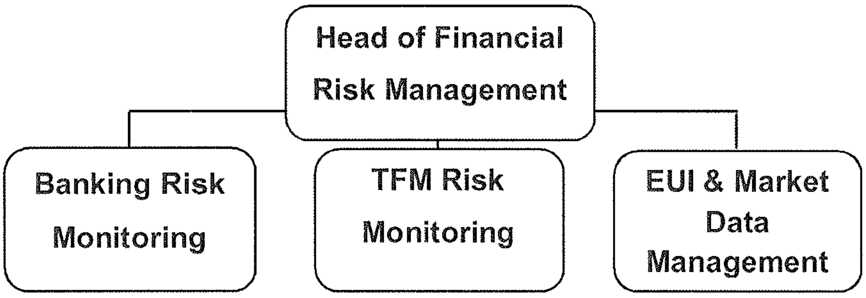
The Credit Risk unit is in charge of defining credit risk policies and guidelines, analysing counterparties and monitoring the Bank's credit risk portfolio. This unit is composed of four different teams:

- While the "Banks & Countries Analyses" team is in charge of the assessment and the monitoring of the risk related to the banks and sovereign counterparts, the "Retail Midcorp, Corp and Private Banking Analyses" team is in charge of that for the retail, corporate and institutional counterparts. Both of them are in charge of assigning internal ratings to BIL counterparties, but also of monitoring the corresponding portfolio;

- "Data Management & Risk Systems" teams are in charge of the development and maintenance of the data and risk systems used for the calculation of the credit risk capital requirements and the corresponding regulatory reportings. These teams are also responsible for the production of regulatory and internal reports related to Credit Risk such as the COREP, Large Exposures and covers ad-hoc requests from regulatory authorities;

- "Gestion Intensive et Particulière" (GIP) manages the assets deemed to be "sensitive" by a proactive approach, in order to minimize the potential losses for the Bank in case of default of a counterparty.

Financial Risk Management



The Financial Risk Management team is in charge of defining policies and guidelines on financial market activities, and of identifying, analysing, monitoring and reporting on risks and results.

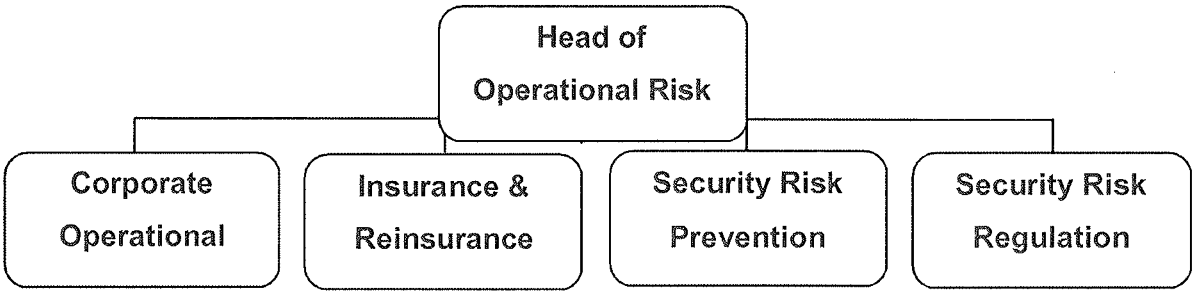
This unit is composed of three different teams:

- The "Banking Risk Monitoring" team is in charge of the follow-up of the counterparties' limits, of margin calls for collateral management purposes, of banking book activity and of liquidity risk. It also implements the regulatory ratios related to liquidity risk (e.g. LCR, NSFR, liquidity monitoring tools);

- The "TFM Risk Monitoring" team's main tasks are the implementation and the follow-up of the financial risks of the Financial Markets' activities (i.e. Fixed Income, Forex, Structured Products and Brokerage), the calculation of BIL's group Value at Risk (VaR), the detection of suspicious transactions and the reconciliation of positions with Profit & Loss (P&L);

- The "EUI (End-User Integration) & Market Data Management" team is in charge of the maintenance and of the evolution of market risk data as well as dealing with dedicated reports and systems.

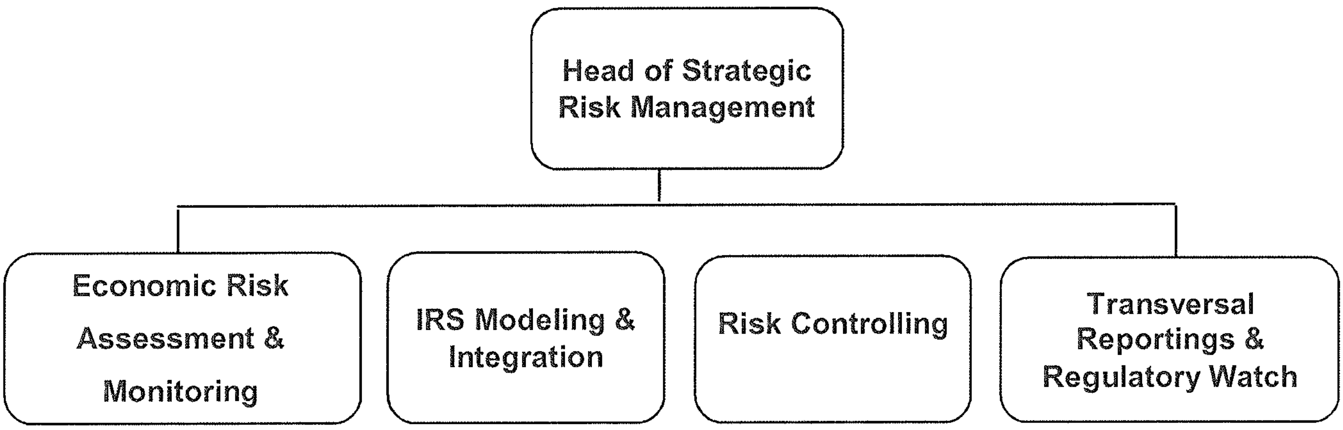
Operational Risk Management



This department encompasses the management of Corporate Operational Risks, Insurance & Reinsurance and Security Risks (prevention, regulation):

- "Corporate Operational Risk" (COR) is in charge of the description of the Bank's internal operational risk management framework and to ensure its implementation and application throughout BIL group. In addition, COR is in charge of recording operational incidents, implementing Key Risk Indicators (KRI), supervising the Risk and Control Self-Assessment (RCSA) performed by each business line/branch/subsidiary, and following the resulting action plans. COR also provides quarterly reports to the *Operational Risk and New Products Committee (ORNPC)*. These reports can be used to review changes in the Bank's risk profile and to take measures needed to reduce risk;
- Based on the risk profile of the Bank, the "Insurance & Reinsurance" team develops and ensures the adequacy (i.e. establishment of new insurance policies and / or update of existing policies) of the (re)insurance policy and (re)insurance system within the Bank and its branches/subsidiaries. The team also provides a centralized management of (re)insurance contracts and acts as single point of contact for our brokers, insurance companies and others insured bodies;
- "Security Risk Prevention" is in charge of ensuring Information Security by defining the access rules to information in accordance with the Security Policy of the Bank, securing access to information by implementing tools and defining access granting procedures, and addressing the new challenges (e.g. reorganization, restructuring, expansion, etc.) of the Bank by working to adapt its management system of access to information. Also responsible of analysing the risks related to the availability of critical activities (i.e. BIA[1], RTO[2], RPO[3]) and considering the strategy reducing these risks to an acceptable level through the development, testing and maintenance of a Business Continuity Plan (BCP);
- "Security Risk Regulation" ensures the analysis of risks related to the availability, confidentiality and integrity of information and implements the strategy, actions and projects to reduce these risks to an acceptable level. As part of its duties we can mention the management of security governance (i.e. roles, responsibilities, committees, processes), the development and maintenance of information classification, the awareness of employees with security requirements. This team is also in charge of the management of security incidents related to information, the organization of the Crisis Committee and Security Committee and the implementation and monitoring of decisions, the execution of controls to ensure compliance with the Security Policy and some aspects of the legal and regulatory compliance related to information security issues.

Strategic Risk Management



The Strategic Risk Management department consolidates all the activities related to the modelling and the monitoring of the Bank's transversal risks. This department is composed of four different teams:

[1] Business Impact Analysis.
[2] Recovery Time Objective.
[3] Recovery Point Objective.

- The "Economic Risk Assessment & Monitoring" team develops an overall framework for the assessment and the monitoring of economic risks faced by the Bank in the course of its activities. This framework comprises, among others the development and integration of the ICAAP process (i.e. risk cartography, economic capital, risk appetite and stress-testing) within the Bank;

- The "IRS Modeling & Integration" team is in charge of the modelling of the Bank's internal rating systems (developed within the A-IRB framework) and their subsequent integration within the businesses. This mandate also comprises the follow-up of key credit risk indicators (e.g. Non-Performing loans, Provisioning) as well as the realisation of the Bank's credit risk related stress-tests;

- The "Risk Controlling" team's aim is to validate the credit risk models' adequacy and performance (Model Validation) as well as their correct use by the credit risk teams regarding both use-tests requirements and dissemination of their corresponding outputs within the Bank's information systems (Rating Systems Quality Control);

- The "Transversal Reportings & Regulatory Watch" team aims to consolidate all of the group risks reports in order to produce an overall view of the Bank's risk profile. This activity thus includes the development and production of a set of transversal reports comprising, among others, the Pillar III Risk report, the coordination and consolidation of the Risk Management department's contributions to the Annual/Semi-Annual Reports, Long Form Reports and Rating Agencies requests as well as the production of a framework dedicated to the monitoring of risks incurred by BIL group's branches/subsidiaries. Moreover, this team is also in charge of the regulatory watch activity and the coordination of projects dedicated to these matters.

3. Credit Risk

3.1. Definition

Credit risk represents the potential loss (reduction in value of an asset or payment default) the Bank may incur as a result of a deterioration in the solvency of any counterparty.

3.2. Risk Policy

BIL group's Risk Management department has established a general policy and procedure framework in line with the Bank's risk appetite. This framework guides the management of credit risk from an analysis, decision-making and risk monitoring perspective. The Risk Management department manages the loan issuance process by delegating, within the limits set by the Bank's internal governance, and by chairing credit and risk committees. As part of its monitoring tasks, the Credit Risk Management unit supervises changes in the Bank's portfolios' credit risks by regularly analysing loan applications and reviewing counterparties' ratings. The Risk Management department also draws up and implements the policy on provisions, decides on specific provisions, and assesses default cases.

3.3. Organisation and Governance

BIL group's Risk Management department oversees the Bank's credit risk, under the supervision of the Management Board and dedicated committees.

The Risk Policy Committee defines the general risk policies, as well as specific credit policy in different areas or for certain types of counterparty, and sets up the rules for granting loans, supervising counterparties' ratings and monitoring exposures. The Risk Policy Committee validates all changes in procedures or risk policies, principles and calculation methods referring to risk.

In order to streamline the decision-making process, the Management Board delegates its decision-making authority to credit committees or joint powers. This delegation is based on specific rules, depending on the counterparty's category, rating level and credit risk exposure. The Board of Directors remains the ultimate decision-making body for the largest loan applications or those presenting a level of risk deemed to be significant. The Credit Risk Management department carries out an independent analysis of each application presented to the credit committees, including determining the counterparty's rating, and stating the main risk indicators; it also carries out a qualitative analysis of the transaction.

Alongside supervision of the issuance process, various committees are tasked with overseeing specific risks:

- The Default Committee identifies and tracks counterparties in default, in accordance with Basel regulations, by applying the rules in force at BIL, determines the amount of allocated specific provisions and monitors the risk cost. The same committee supervises assets deemed to be "sensitive" and placed under surveillance by being filed as "Special Mention" or put on "Watchlists";

- The Rating Committee ensures that the internal rating systems are correctly applied and that rating processes meet pre-defined standards;

- The Internal Rating Systems Performance Committee ensures the monitoring of BIL's internal rating systems' performance through time (i.e. backtesting, benchmarking, model validation) and discusses all the strategic choices related to this matter (e.g. new model development, material changes etc.).

3.4. Risk Measurement

Credit risk measurement is primarily based on internal systems introduced and developed within the Basel framework. Each counterparty is assigned an internal rating by credit risk analysts, using dedicated rating tools. This internal rating corresponds to an evaluation of the level of default risk borne by the counterparty, expressed by means of an internal rating scale. Rating assessment is a key factor in the loan issuance process. Ratings are reviewed at least once a year, making it possible to identify counterparties requiring the close attention of the Default Committee.

To manage the general credit risk profile and limit concentration of risk, credit risk limits are set for each counterparty, establishing the maximum acceptable level for each one. Limits by economic sector and by product may also be imposed by the Risk Management department. The latter actively monitors limits, which it can reduce at any time, in light of changes in related risks. The Risk Management department may freeze specific limits at any time in order to take the latest events into account.

Focus on the forbearance measure

BIL monitors closely its forborne exposures, in line with the definition stated in the publication of the Official Journal of the European Union dated February 2015.

The previous CSSF definition of restructured credit is close to this definition; the latter provides institutions with more details regarding the way this notion should be addressed across different jurisdictions. Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Those measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan.

Once those criteria are met, the credit files are flagged as being restructured and are added to a list closely followed by the team "Gestion Intensive et Particulière".

In order to comply with the regulatory standards, BIL group has set up a dedicated project aimed at (1) identifying the criteria leading to the forborne classification, (2) classifying the Bank's existing exposures between the forborne and non-forborne ones and (3) implementing these criteria across the systems.

For all counterparties, dedicated analyses are carried out at single credit files level in order to identify those that should be classified as forborne according to the regulatory definition. The granting of forbearance measure is likely to constitute an impairment trigger, meaning that the loan should be assessed for impairment either individually or as part of a collective assessment.

For credit files in forbearance and in case of early repayment, the costs related to these transactions are either borne by the debtor (in one shot or spread over the term of the new loan) or recognised directly in the Bank's profit and loss.

As at end 2015, BIL group's forborne exposures amounted to 296.4 million including 7.9 million as given banking guarantees. This stock increase observed since end 2014 (197 million as at December 2014) can partially be explained by the fact that files once detected as forborne remain at least in a forbearance status during a probation period of 3 years.

3.5. RISK EXPOSURE[4]

Credit risk exposure includes:

- The net carrying value of balance sheet assets other than derivative products (i.e. the carrying value after deduction of specific provisions);
- The mark-to-market valuation of derivative products;
- The total off-balance sheet commitments corresponding to unused lines of liquidity or to the maximum amount that BIL is committed to as a result of guarantees issued to third parties.

Are excluded from this perimeter, equity exposures, tangible/intangible assets and deferred tax assets.

The substitution principle applies where the credit risk exposure is guaranteed by a third party with a lower risk weighting. Therefore, counterparties presented hereafter are final counterparties, i.e. after taking into account any eligible guarantees.

As at December 31, 2015, the Bank's total credit risk exposure amounted to 22.2 billion, namely almost two billion above the end 2014 situation. The overall exposure increase is observed on nearly all the segments of the Bank's portfolio; the main contributors are the *Financial Institutions* (+0.85 billion), the *Corporate* (+0.31 billion) and the *Individual, SME and Self-Employed* (+0.27 billion) portfolios.

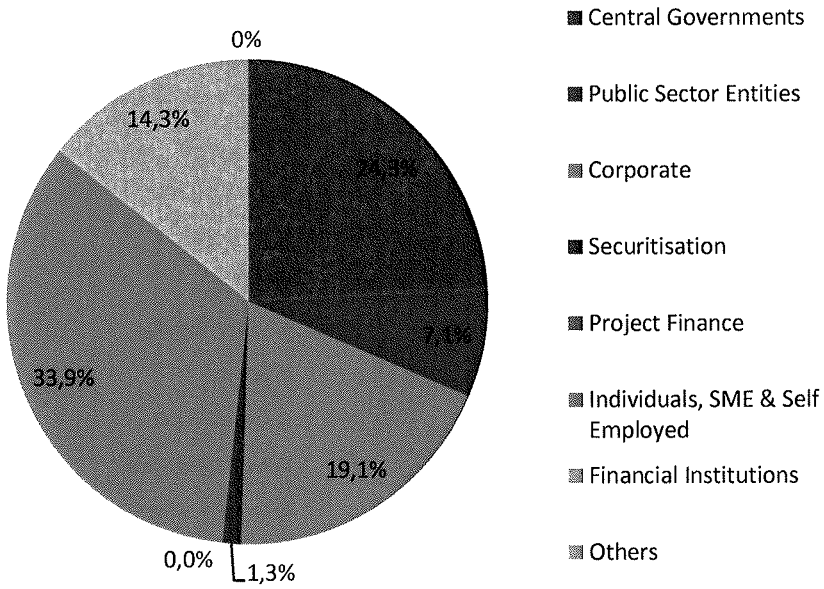
Exposure by type of counterparty

In 2015 and in line with BIL group's business model and strategy, the *Individuals, SME and Self Employed* segment remains the Bank's largest portfolio, representing around 33.9% of the overall exposure (7.55 billion, +0.27 billion as compared to end 2014).

The *Central Governments* exposure weighting is relatively stable compared with the previous year and remains the second segment of the Bank's portfolio, representing 24.3% of the overall exposure.

Finally, it is also worth noting the increases on (i) the *Financial Institutions* exposures (+0.85 billion as compared to the end 2014 situation, corresponding to an increase of +36% over one year) partially explained by the repo and reverse repo activities and the increase of the Bank's investment portfolio as well as (ii) on the *Corporate* exposures (19.1% of the overall exposure, +0.31 billion as compared to 2014).

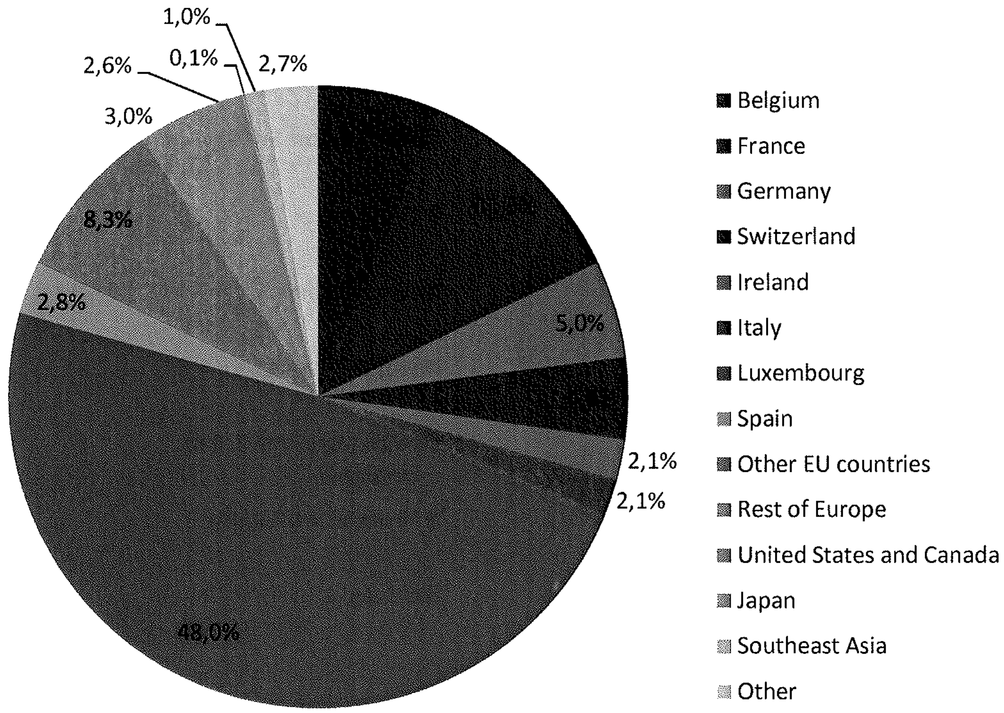
[4] Rounding differences and percentages calculated on exact numbers.



Exposures by counterparty category (in EUR millions)	31/12/2014	31/12/2015	Variation
Central Governments	5'225	5'409	184
Public Sector Entities	1'372	1'583	211
Corporate	3'941	4'250	309
Securitisation	100	281	181
Project Finance	6	0	-6
Individuals, SME & Self Employed	7'277	7'551	274
Financial Institutions	2'326	3'172	846
Other	6	5	-1
TOTAL	**20'253**	**22'251**	**1'998**

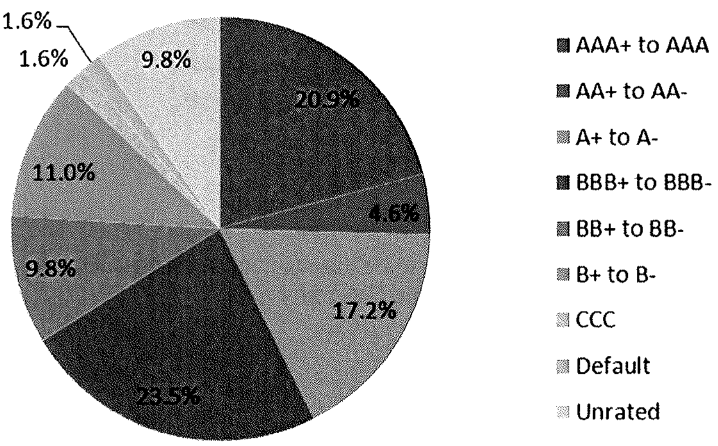
Exposure by geographic region

As at December 31, 2015, the Bank's exposure continued to be mainly concentrated in Europe, primarily in Luxembourg (48%), France (11.5%), Belgium (6.5%) and Germany (5%).



Exposure by internal rating

The credit risk profile of the Bank has remained stable since year-end 2014 and is of good quality. Indeed, the Investment Grade (IG) exposures represent 66.2% of the total credit risk exposure, of which 20.9% lies within the AAA+ to AAA range.



Exposure to PIIGS

The breakdown of the government bond portfolio for sensitive European countries by maturity bucket is provided hereafter for the 2015 situation[5].

(In EUR million)	31.12.2014	31.12.15										
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	TOTAL
Ireland	290	73	111	0	0	0	0	26	0	42	113	365
Italy	505	182	133	11	0	0	0	0	0	0	0	326
Spain	257	68	34	21	35	18	11	30	52	86	35	390
TOTAL	1'052	323	278	32	35	18	11	56	52	128	148	1'081

The Bank's portfolio exposure on PIIGS[6] has slightly increased compared to year-end 2014 which can be explained by new investments on Irish and Spanish government bonds and sales or matured positions on Italian government bonds.

As at end 2015, the Bank has no investments in Portuguese or Greek government bonds.

Large exposures

According to its letter dated November 22, 2012, the CSSF has granted a total exemption for BIL's exposure towards its sister company KBL epb and its subsidiaries in the calculation of large exposure limits, in accordance with the former Circular 06/273 (part XVI, point 24), as amended. As at December 31, 2015, BIL had no exposure towards its sister company KBL epb.

Asset Quality

(in EUR millions)	31/12/14	31/12/15
Gross amount of non-impaired loans	10'806.8	11'330.3
Impaired loans to customers	314.3	344.8
Specific provisions	256.0	274.8
Asset quality ratio [1]	2.83%	2.95%
Coverage ratio [2]	81.46%	79.71%
Collective impairments on loans	26.5	28.6

[1] Impaired loans as a percentage of total loans outstanding.
[2] The coverage ratio measures specific provisions recognised for loans and receivables in relation to total outstanding impaired loans and advances to customers.

Both the Bank's loan portfolio size and the specific provisions level have increased in 2015.
The asset quality ratio amounts to 2.95% as at December 31, 2015 and has slightly increased when compared to the year end 2014 situation (2.83%). The impaired loans and advances to customers amounted to 344.8 million (+30.5 million), corresponding to a relative increase of 10% as compared with the previous year.

4. MARKET RISK, ASSETS & LIABILITIES MANAGEMENT (ALM)

4.1. DEFINITIONS

Market risk is the risk of losses in positions arising from adverse movements in market prices. It mainly consists of interest-rate risk, equity price risk and foreign exchange risk:

[5] Excluding trading.
[6] Namely Portugal, Italy, Ireland, Greece and Spain.

- The interest-rate risk consists of a general interest rate risk resulting from market developments and a specific interest rate risk. The latter, also called 'credit spread risk', is defined as the specific interest-rate risk attached to an issuer and arises from variations in the spread of a specific signature within a rating class;

- The risk associated with the equity price represents the risk arising from the reduction in value of the equity;

- The foreign exchange risk represents the potential decrease of the value due to currency exchange rate movements.

Assets & Liabilities Management covers all the banking book's structural risks, namely interest-rate risk, foreign exchange risk and liquidity risk.

Liquidity risk measures BIL's ability to meet its current and future liquidity requirements, both expected and unexpected, whether or not the situation deteriorates.

Counterparty risk measures on a daily basis BIL's exposure to an external counterparty.

4.2. Risk Policy

For integrated market and ALM risk management, BIL defines a framework based on the following dimensions:

- An exhaustive risk measurement approach, which is an important part of BIL's risk profile monitoring and control process;

- A sound set of limits and procedures governing risk-taking;

- As a core principle, the system of limits must be consistent with the overall risk measurement and management process, and be proportionate to the capital position. These limits are set for the broadest possible scope;

- An efficient risk management structure for identifying, measuring, monitoring, controlling and reporting risks: BIL's development of a general risk management framework is suited to the type of challenges it faces. This approach offers an assurance that market risks have been managed in accordance with BIL's objectives and strategy, within its overall risk appetite.

4.3. Organisation and Governance

Financial Risk Management (FRM) oversees market risk under the supervision of the Management Board and specialized risk committees. FRM is a support unit within the Risk Management department. On the basis of its global risk management approach, it is responsible for identifying, analysing, monitoring and reporting on risks and results (including the valuation of assets) associated with financial market activities.

The policies, directives and procedures documenting and governing each of the activities are defined within BIL and applied to all the Bank's entities:

- Head Office FRM teams define risk measurement methods for the whole Group; in addition they report and monitor the risks of the activities they are responsible for, at a consolidated level;
- Head Office and local FRM teams follow the day-to-day activity, implement policies and directives, monitor risks (e.g. calculation of risk indicators, control limits and triggers, frame new activities/new products etc.) and report to their own Management Board, as well as to local supervisory and regulatory bodies;
- The ALM Committee decides on the structural balance sheet positioning regarding rates, foreign exchange and liquidity. It defines and revises market risk limits;

- FRM, in its day-to-day activity, is supported by two operational committees: The MOC (Monthly Operational Committee) and the OR&NPC (Operational Risk and New Products Committee), which are detailed in Operational Risk section hereafter.

4.4. RISK MEASUREMENT AND EXPOSURES

Market Risk

Risk measurement

The Bank has adopted sensitivity and VaR measurement methodologies as key risk indicators. Risk sensitivity measurements reflect the balance-sheet exposure to a parallel movement of 1% on the yield curve. VaR measures the maximal expected potential loss that can be experienced with a 99% confidence interval, within a 10-day holding period.
BIL applies sensitivity and VaR approaches to accurately measure the market risk inherent to its various portfolios and activities.

- General interest rate risk and currency risk are measured through historical VaR;
- Trading portfolio equity risk is measured through historical VaR;
- Non-linear risks are measured through historical VaR;
- Specific interest rate risk (spread risk) is measured through sensitivities.

As a complement to VaR measures and income statement triggers, the Bank applies a broad range of other measures aimed at assessing risks associated with its various business lines and portfolios (e.g. nominal limits, maturity limits, market limits, sensitivity to various risk factors etc.).
In 2015, the hypothetical back-testing calculated on the trading portfolio revealed 8 downward backtesting exceptions for interest rate and currency risks of which:

- 1 exception is explained by the unpegging of CHF from EUR exchange rate;
- 1 exception is explained by a high volatility of USD exchange rate against EUR;
- 4 exceptions are explained by no diversification benefit due to a sudden increase of middle/long term EUR interest rate joined with a high increase of EUR exchange rate against USD (EUR interest rate on 7y and 10y tenors climbed by more than 90% over 1 week);
- 2 exceptions are explained to a high volatility of USD exchange rate against EUR combined with exceptional variations of EUR interest rates.

By the end of 2015, a project has been launched to build a stress testing framework taking into account those exceptional market occurrences.

Risk exposure

Treasury and Financial Market
The detailed IR&FX VaR used for Treasury and Financial Market activities (ALM not included) is disclosed in the table below. The average Value at Risk was 0.97 million in 2015, compared with 2.4 million in 2014.

VaR (10 days, 99%) (in EUR millions)		2014 IR[7] & FX[8] (trading and banking)[9] Q1	Q2	Q3	Q4	EQT[10] trading Q1	Q2	Q3	Q4
By risk factor	Average	4.45	2.97	1.57	0.70	0.00	0.00	0.01	0.00
	Maximum	5.45	3.99	2.46	0.96	0.01	0.02	0.01	0.03
Global	Average	2.40							
	Maximum	5.45							
	End of period	0.45							
	Limit	8.00							

VaR (10 days, 99%) (in EUR millions)		2015 IR & FX (trading and banking) Q1	Q2	Q3	Q4	EQT trading Q1	Q2	Q3	Q4
By risk factor	Average	1.17	1.06	0.89	0.76	0.01	0.01	0.00	0.00
	Maximum	5.22	2.21	1.25	1.30	0.02	0.02	0.01	0.02
Global	Average	0.97							
	Maximum	5.22							
	End of period	1.15							
	Limit	8.00							

As of December 31, 2015, the spread sensitivity (+1bp) for the capital markets activity amounted to EUR -25.838 for a limit set at EUR -60.000.

Asset and Liability Management
The role of the ALM unit in terms of interest-rate risk management is to reduce the volatility of the income statement, thereby safeguarding the gross margin generated by the business lines.

The sensitivity of the net present value of ALM positions to a change in interest rates is currently used as the main indicator for setting limits and monitoring risks.

As at December 31, 2015, the ALM sensitivity amounted to -8.5 million (vs. +61 million as at end 2014).

This change is mainly due to bonds purchases and increases of fixed rate loans.
The limit of interest-rate sensitivity for a 100 bp parallel shift was 81 million as at December 31, 2015 (identical to last year limit).

Investment Portfolio
The interest-rate risk of the investment portfolio is transferred and managed by the Treasury department or by the ALM department, depending on various criteria (i.e. maturity, sector).

The investment portfolio has a total nominal exposure of 6.06 billion as at December 31, 2015 (against 4.91 billion as at December 31, 2014). The majority of the bonds are classified in the AFS portfolio: 5.94 billion as at December 31, 2015 (against 4.75 billion as at December 31, 2014). The remaining part is classified in the HTM portfolio: 120 million as at December 31, 2015.

[7] IR: interest rate.
[8] FX: foreign exchange.
[9] IR & FX: excluding asset & liability management (ALM).
[10] EQT: equity.

As far as the AFS-classified bond portfolio is concerned, the sensitivity of fair value (and the AFS reserve), to a one basis point widening of the spread, was -3.0 million as at end 2015 (compared with – 2.7 million per basis point as at December 31, 2014).

Investment portfolio (in EUR millions)	Notional amount		Rate bpv		Spread bpv	
	31/12/14	31/12/15	31/12/14	31/12/15	31/12/14	31/12/15
Treasury	2,323	2,939	(0.15)	(0.16)	(0.81)	(1.05)
ALM	2,588	3,126	(0.23)	(1.41)	(1.98)	(2.10)

Liquidity Risk

The liquidity management process is based upon covering funding requirements with available liquidity reserves. Funding requirements are assessed carefully, dynamically and comprehensively by taking the existing and planned on- and off-balance sheet asset and liability transactions into consideration. Reserves are constituted with assets eligible for refinancing with the central banks to which BIL has access (Banque Centrale du Luxembourg (BCL) and Swiss National Bank (SNB)).

Regular information channels have been established for management bodies. A weekly report is sent to the CEO, the CRO, the ALM Committee members, the Risk Management, the Cash & Liquidity Management and the TFM teams. An analysis of the balance sheet development (e.g. customer deposits etc.) is presented and commented during the ALM Committee meetings.

Risk measurement
The internal liquidity management framework includes indicators enabling the assessment of BIL's resilience to liquidity risk. These indicators include liquidity ratios, which compare liquidity reserves with liquidity deficits[11]. All these indicators are assessed according to a variety of scenarios, in the major currencies. These ratios are sent to the CSSF and to the BCL, respectively on a daily and a weekly basis.

Risk exposure
In line with the 2014 year-end situation, BIL presented a significant liquidity surplus throughout the year of 2015.

Additional funding needed to reach 100% of the base case ratio (in EUR millions)	2015	Q1	Q2	Q3	Q4
	Estimated – 1 month				
Average	(4,257)	(3,510)	(4,597)	(4,208)	(4,712)
Maximum	(4,960)	(3,784)	(4,785)	(4,450)	(4,960)

The negative amount of additional funding needed to reach 100% of the base-case ratio shows that the Bank presents a surplus of liquidity.

From a commercial balance sheet point of view, the Bank has observed a progressive increase in customer deposits and a moderate growth in the loan portfolio.

This excess cash has been partially invested through the Bank's liquidity buffer bonds portfolio. This portfolio is mainly composed of central bank eligible bonds which are also compliant with the Basel III package requirements, i.e. the LCR and NSFR.

Please also note that the Bank's LCR has met the fully phased threshold of 100% and amounts to 119% by end 2015.

[11] Called "Base Case Ratio"

5. OPERATIONAL RISK

5.1. DEFINITION

Operational risk is the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic risk. It also excludes losses resulting from commercial decisions.

5.2. RISK POLICY

BIL's Operational Risk Management (ORM) Policy involves identifying and regularly assessing the existing risks and current measures in order to ensure that the acceptance level defined per activity is respected. If not, the business has to implement swift corrective or improvement actions permitting a return to an acceptable situation. This framework is implemented through a preventive approach, particularly with regard to Information Security, Business Continuity and, whenever necessary, through the transfer of the financial consequences of certain risks towards insurances.

In terms of information security, including business continuity management and access management, BIL group's Management Board has validated and implemented an information security policy. This document and its related guidelines, standards, procedures and practices are intended to secure BIL's information assets.
In terms of operational risk, BIL's management has conducted the annual review of the Operational Risk Global Policy without any major change. The few amendments have essentially been implemented into the underlying guidelines (i.e. guidelines for reporting operational incidents and guidelines for conducting a Risk and Control Self-Assessment).

5.3. ORGANISATION AND GOVERNANCE

BIL's operational risk management framework relies on strong governance, with clearly defined roles and responsibilities.

The following committees are responsible for operational risk at BIL:

- The Operational Risk and New Products Committee (OR&NPC), mandated by the Management Board, is in charge of supervising operational risk at BIL and of addressing operational impacts arising from the development of new markets, products and services and significant changes to existing ones. To this end, the committee takes decisions on risks that have been identified and analysed (i.e. through projects, controls, incidents etc.) as well as on suitable measures to be taken in order to improve weak processes. This committee also monitors the decisions that have been taken during the OR&NPC and approves the results of the Risk & Control Self-Assessment (RCSA) exercises;

- The Monthly Operational Committee (MOC), under the responsibility of the Treasury & Financial Markets (TFM) business line, and with the participation of ORM, supervises BIL's TFM projects and operational risks, takes decisions in terms of tackling day-to-day problems and monitors other risks related to TFM Luxembourg's activities;

- The Security Committee (SC) is mandated by the Management Board to oversee the risks to BIL's Information Security and to that of its subsidiaries and branches, as well as all risks of deficiency of confidentiality, availability, or integrity of the Bank's information assets. It is also in charge of overseeing security incidents involving BIL, taking decisions on any project which could have a potential impact on the security of BIL's information assets and ensuring that the implementation and support of a global Business Continuity Plan (BCP) follows the strategy defined by the Management Board;

- The Crisis Committee is mandated by the Management Board to create an operational crisis management committee consisting of a core incorporating different members of the functions necessary for the management of any crisis; depending on the type of crisis, this core is complemented by the heads of the entities affected;

- The Compliance, Audit and Risk (CAR) Committee is a monthly committee which has been set up at the initiative of IS4F[12]. This Committee covers aspects of Compliance, Audit and Risk between BIL and IS4F. It brings together the Chief Compliance Officer, the Head of Audit and the Head of BIL group's Risk Management and/or their substitutes.

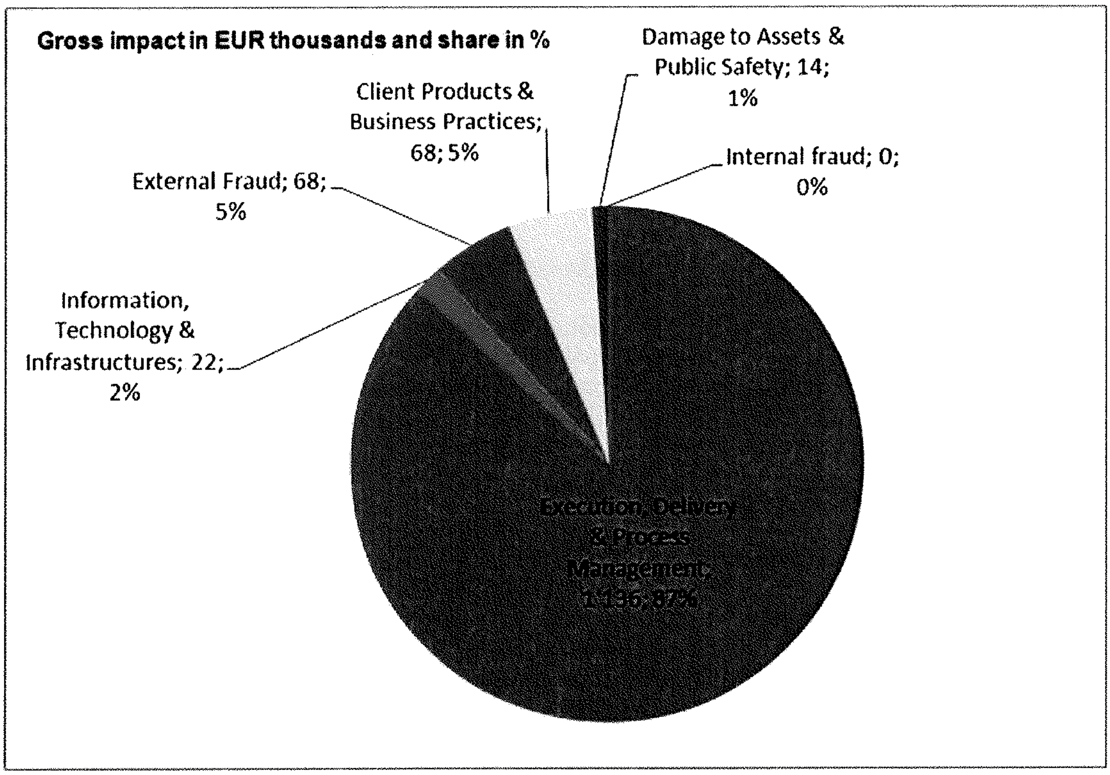
5.4. RISK MEASUREMENT AND MANAGEMENT

The operational risk framework relies on the following elements.

Operational Risk Event Data Collection
According to the Basel Committee, the systematic recording and monitoring of operational incidents is a fundamental aspect of risk management: "*Historical data on banking losses may provide significant information for assessing the Bank's operational risk exposure and establishing a policy to limit/manage risk*".

Regardless of the approach used to calculate the capital, data collection is required. Having a relevant procedure in place ensures that BIL complies with the Basel Committee's requirements (i.e. guidelines for reporting operational incidents). At the same time, recording incidents provides information that may be used to improve the internal control system and determine the Bank's operational risk profile.

The breakdown of BIL group's gross losses for the year 2015 by nature of events is disclosed in the chart below.



[12] IS4F (Innovative Solutions For Finance) is a professional of the financial sector (PFS company) that delivers IT infrastructure and production services for BIL.

Execution, Delivery & Process Management incidents represent 87% of the total amount of BIL group's operational risk losses. Losses related to these incidents were in the vast majority due to human errors and the main operational risk was due to wrong executions of instructions.
In the second place, 5% of the Bank's losses occurred were due to *External Fraud events*. In 2015, 60 external frauds (attempts) were recorded, among which 50 have been stopped by the Bank, thanks to the update of the internal memorandum that imposes the execution of additional controls based on the customer's habits or profile. The Bank didn't face any internal fraud in 2015.
Within the *Client Products and Business Practices* segment (5%), BIL recorded incidents linked to the disruption or the wrong conception of systems, with consequences on customers' accounts management and bad management of customers' data.
In the *Information, Technology and Infrastructures* category (2%), the operational incidents were mainly linked to temporary unavailability of IT systems. BIL does not estimate the related financial impacts except if they have direct financial consequences for the customers. The principal impact is calculated in Men/Days. The *Damage to Assets & Public Safety* event type (1%) represents the incidents linked with buildings and covered by insurances, which explains minor financial impacts.
In terms of reporting, an exhaustive monthly document is produced for each line manager (Head Office, subsidiaries and branches). It covers every incident that has arisen in their business over the previous month. Recipients analyse their report and verify that all incidents brought to their attention have been treated.
ORM also presents an operational risk report to the OR&NPC at the end of each quarter.

Self-assessment of risks and associated controls

A RCSA exercise is performed each year in order to identify the most significant operational risk areas of the Bank. This assessment provides a good overview of the various activities and existing checks and can lead to the definition of mitigation actions. The results of these assessments are reported to the management during the OR&NPC meetings. The guideline for RCSA has been reviewed in 2015 without significant changes.

Definition and follow-up of action plans

As part of the operational risk management, corrective action plans linked to major risks and events are monitored closely.
Two types of action plans are managed through operational risk management:

- Action plans – Incidents: Following a significant incident, the management has to implement action plans in order to reduce the impacts or prevent its reiteration;
- Action plans – RCSA: In the event of unacceptable risk exposure, the management has to identify *ad hoc* action plans covering the identified risk.
-

Calculation of the regulatory capital requirement

BIL group applies the standardised Basel approach to calculate the regulatory capital requirements for operational risk. This approach consists in applying a percentage (called the "beta factor", ranging from 12% to 18%) to an appropriate activity indicator, calculated for each of the eight business lines defined by the Basel Committee (i.e. corporate finance, commercial banking, retail banking, trading and sales, asset management, agency services, retail brokerage, payment and settlement).

The relevant indicator is defined by the regulator and is based on the operational results of the underlying business lines, using an average over the past three years. The calculation is updated at the end of each year. The operational risk weighted assets have increased compared with the end of 2014 figures (692 million) to reach 764 million at year-end 2015.

Risk Weighted Assets (in EUR millions)	
2014	2015
692	764

6. Regulatory Capital Adequacy - Pillar 1

6.1. Weighted Risks

Since January 1st, 2008, the Bank has used the Basel framework – through its different evolutions – to calculate its capital requirements with respect to credit, market and operational risk, and to publish its solvency ratios.
For credit risk, BIL group has decided to use the Advanced-Internal Rating Based (A-IRB) approach on its main counterparties (i.e. Sovereigns, Banks, Corporate, SMEs and Retail) for the assessment of its risk weighted assets (RWA). When it comes to Market Risk, the Bank has adopted the Standardised method; this choice is based on the Bank's very moderate trading activity, whose sole purpose is to assist BIL's customers by providing the best service relating to the purchase or sale of bonds, foreign currencies, equities and structured products. The Standardised method is also used for the calculation of the weighted operational risks of the Bank.

At the end of 2015, the Bank's total RWAs amounted to 5.6 billion, as compared with the 5 billion as at end 2014.

On the credit risk side, the overall increase observed in 2015 (+0.56 billion), is explained by the increase on fixed and roll-over terms advances mainly on *Corporate* and on new investments in the investment portfolio.

While operational risk RWAs increased by 72 million in 2015, partially explained by higher average revenues on the Bank's investment portfolio, the Market Risk RWAs decreased by 39 million, principally explained by a decrease of the equity portfolio.

(in EUR millions)	31/12/14	31/12/15	Variation
Weighted credit risks	4'140	4'703	14%
Weighted market risks	136	97	-29%
Weighted operational risks	692	764	10%
Weighted CVA risks	38	25	-34%
TOTAL WEIGHTED RISKS	**5'006**	**5'589**	**12%**

6.2. Capital Adequacy Ratios

(in EUR millions)	31/12/14	31/12/15
Common Equity Tier 1 Capital (CET1)	765	729
Additional Tier One Capital	150	150
Total Own funds	979	898
Risk Weighted Assets	5'006	5'589
Common Equity Tier 1 Capital Ratio (CET 1%)	15.28%	13.04%
TOTAL CAPITAL RATIO	**19.56%**	**16.07%**

The Bank's Common Equity Tier 1 (CET1) capital evolution since end 2014 is mainly explained by the decrease of the consolidation reserves item which is partially compensated by the integration of a part of the profits of the current financial year.

The decrease observed on total own funds is due to both the evolution of the CET1 capital and the amortization and prepayment of subordinated loans of Tier 2 capital.

Lower own funds (numerator) and higher risk weighted assets (denominator) both lead to a decrease of the Bank's capital ratios in 2015. Nevertheless, the Bank keeps showing strong capital ratios which are above the regulatory requirements.

7. INTERNAL CAPITAL ADEQUACY - PILLAR 2

Article 73 of Directive 2013/36/EU defines the ICAAP as a set of *"[...] sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed*".

The ICAAP is an internal instrument, which shall allow BIL group to hold the internal capital it deems appropriate in order to cover all the risks to which it is or could be exposed as a result of its business model and strategic plan, this being framed by its Risk Appetite and its risk bearing capacity.
Under the ICAAP, BIL group is required to identify the material risks to which it is exposed, to quantify them and to ensure it maintains adequate capital to back them. This capital must be of sufficient quality to absorb losses that may arise for a given time period and level of confidence.

The ICAAP shall fully reflect all of the risks to which BIL group is or could be exposed, as well as the economic and regulatory environment within which the Bank operates or could come to operate. The ICAAP shall therefore not only take into account the current situation but shall also be forward-looking in order to ensure the internal capital adequacy on an ongoing basis.

The main building blocks of BIL group's ICAAP

In order to maintain internal capital adequacy on an ongoing basis, the ICAAP is anchored in BIL group's decision-making processes, its business and risk strategies and its risk management and control processes.
This objective is achieved through the development of a sound and comprehensive framework based on the following key components:

- In order to determine the adequacy of its internal capital, BIL group first translates its business and strategy plans into *Risk Appetite Statements* and develops and monitors the corresponding framework.
- Secondly, BIL group has to identify the risks to which it is exposed to (i.e. risk identification and cartography). Different steps are then taken within the Bank on an ongoing basis: Definition of a risk glossary, identification of the risks borne by the institution, assessment of the risks materiality, drafting of the Bank's risk cartography.
- BIL group then assesses its capital needs to cover the economic effects of risk-taking activities thanks to the Economic Capital (ECAP) framework. ECAP is defined as the potential deviation between the group's economic value and its expected value, for a given confidence interval (depending on BIL group's target rating), and a horizon of one year.
- BIL group finally assesses its capacity to maintain sufficient capital, in terms of quantity and quality, to support its risk profile through both normal and crisis periods. This is carried out through the assessment, on an ongoing basis, of the Bank's capital adequacy and, at least once a year, through the forward-looking assessment of the Bank's capital soundness (Capital Planning).

Note 38 – Audit fees

(in EUR thousands)	31/12/2015	31/12/2014
Standard audit services	3,800	3,929
Audit related services	150	596
Tax services	-	58
Other services	202	232
Total	**4,152**	**4,815**

Note 39 – Information country by country

The following tables show information distributed by European Members and third countries at the subsidiaries consolidated level (KBL epb and BIL). It is worth to note that none of the subsidiaries have received public subsidies.

KBL epb Group

(in EUR millions) **31/12/2015**

Country	Turnover (Gross income)	Full-time equivalents[1]	Profit or loss before tax	Tax on profit or loss
BELGIUM	55	213	19	-5
FRANCE	28	125	-3	0
GERMANY	54	309	-2	-1
LUXEMBOURG	234	834	38	-8
THE NETHERLANDS	45	192	10	-2
SPAIN	4	41	-3	0
SWITZERLAND	54	78	32	1
UNITED KINGDOM	64	283	9	-2
MONACO	10	46	0	0

[1] number of employees on a full time equivalent basis.

BIL Group

(in EUR millions)	31/12/2015			
Country	Turnover (Gross income)	Full-time equivalents[1]	Profit or loss before tax	Tax on profit or loss
BELGIUM	2	0	1	0
DENMARK	8	35	1	0
FRANCE	0	0	0	0
LUXEMBOURG	526	1,840	193	-32
SINGAPORE	1	3	-7	0
SWITZERLAND	20	157	-19	0
UNITED ARAB EMIRATES	1	15	-3	0

[1] number of employees on a full time equivalent basis.

Note 40 – List of significant subsidiaries and associates

COMPANY	COUNTRY	CAPITAL HELD	SECTOR
Precision Capital S.A.	Luxembourg	100.00%	Holding
FULLY CONSOLIDATED SUBSIDIARIES (global method)			
KBL European Private Bankers S.A.	Luxembourg	99.91%	Bank
KBL European Private Bankers, Sucursal en España	*Spain*	*Branch*	*Bank*
Brown, Shipley & Co. Limited	United Kingdom	99.91%	Bank
Cawood Smithie & Co Limited	United Kingdom	99.91%	Other - financial
Fairmount Pension Trustee Limited	United Kingdom	99.91%	Other - financial
Fairmount Trustee Services Ltd	United Kingdom	99.91%	Other - financial
Slark Trustee Company Ltd	United Kingdom	99.91%	Other - financial
White Rose Nominees Ltd	United Kingdom	99.91%	Other - financial
Hampton Dean Limited	United Kingdom	99.91%	Other - financial
Hampton Dean Holdings Limited	United Kingdom	99.91%	Other - financial
KBL Immo S.A.	Luxembourg	99.91%	Real estate
Rocher Ltd	Isle of Man	99.91%	Real estate
S.C.I. KBL Immo III	Monaco	99.91%	Real estate
Plateau Real Estate LTD	Isle of Man	99.91%	Real estate
SCI KBL Immo II	Monaco	99.91%	Real estate
KBL Monaco Private Bankers	Monaco	99.91%	Bank
S.C.I. KBL Immo I	Monaco	99.91%	Real estate
KBL Monaco Conseil et Courtage en Assurance	Monaco	99.91%	Insurance
KBL Beteiligungs A.G.	Germany	99.91%	Holding
Modernisierungsgesellschaft Lübecker Str. 28/29 Gbr	Germany	78.99%	Real estate
Merck Finck & Co.	Germany	99.91%	Bank
Merck Finck Pension Universal Funds	Germany	99.91%	Management (Funds, Pensions, Portfolios)
Merck Finck Treuhand A.G.	Germany	99.91%	Non – Financial Corporation
KBL Richelieu Banque Privée S.A.	France	99.91%	Bank
KBL Richelieu Gestion	France	99.91%	Management (Funds, Pensions, Portfolios)
S.E.V.	France	99.91%	Other - Commercial
KBLR COURTAGE (Ex KBLR INVEST 1)	France	99.91%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 2	France	99.91%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 3	France	99.91%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 4	France	99.91%	Management (Funds, Pensions, Portfolios)
KBL Informatique G.I.E.	Luxembourg	99.91%	IT
Kredietrust Luxembourg S.A.	Luxembourg	99.91%	Management (Funds, Pensions, Portfolios)
Puilaetco Dewaay Private Bankers S.A.	Belgium	99.91%	Bank
Banque Puilaetco Dewaay Luxembourg S.A.	Luxembourg	99.91%	Bank
Theodoor Gilissen Bankiers N.V.	The Netherlands	99.91%	Bank
TG Fund Management B.V.	The Netherlands	99.91%	Management (Funds, Pensions, Portfolios)
Theodoor Gilissen Trust B.V.	The Netherlands	99.91%	Management (Funds, Pensions, Portfolios)
Theodoor Gilissen Global Custody N.V.	The Netherlands	99.91%	Custodian
Wereldeffect B.V.	The Netherlands	99.91%	Management (Funds, Pensions, Portfolios)
Banque Internationale à Luxembourg S.A.	Luxembourg	89.93%	Bank
Selskabet af 18 December 2013 A/S	Denmark	89.93%	Bank
Banque Internationale à Luxembourg (Suisse) S.A.	Switzerland	89.93%	Bank
BIL Asia Singapore Ltd	Singapore	89.93%	Bank
BIL Auto Lease Luxembourg S.A.	Luxembourg	89.93%	Leasing
Société du 25 juillet 2013 SA	France	89.93%	Other - financial
Experta Corporate and Trust Services S.A.	Luxembourg	89.93%	Other - financial
Experta Immobilien A.G.	Switzerland	89.93%	Real estate
I.B. Finance S.A.	Luxembourg	89.93%	Bank
Société Luxembourgeoise de Leasing - BIL Lease S.A.	Luxembourg	89.93%	Leasing
BIL Manage Invest S.A.	Luxembourg	89.93%	Management (Funds, Pensions, Portfolios)
Belair House S.A.	Luxembourg	89.93%	Management (Funds, Pensions, Portfolios)
BIL Reinsurance S.A.	Luxembourg	89.93%	Insurance
Red Sky SA	Luxembourg	89.93%	Other - financial
Privagest SA	Switzerland	89.93%	Management (Funds, Pensions, Portfolios)
ASSOCIATES (equity method)			
KBL European Private Bankers S.A.			
EFA Partners S.A. (1)	Luxembourg	52.65%	Holding
European Fund Administration S.A. (1)	Luxembourg	48.53%	Fund administration
Europay Luxembourg S.C.	Luxembourg	0.90%	Computerized means of payment
Société de la Bourse de Luxembourg S.A.	Luxembourg	3.98%	Stock Exchange company
Banque Internationale à Luxembourg S.A.			
Europay Luxembourg S.C.	Luxembourg	31.66%	Computerized means of payment
Société de la Bourse de Luxembourg S.A.	Luxembourg	19.25%	Stock Exchange company

COMPANY	COUNTRY	CAPITAL HELD	REASON FOR EXCLUSION
NON-CONSOLIDATED COMPANIES			
KBL European Private Bankers S.A.			
Forest Value Investment Management S.A.	Luxembourg	25.58%	Insignificant
Horacio sarl	Luxembourg	99.91%	Insignificant
KBL Beteiligungs A.G.			
Steubag G. Betriebsw. & Bankendienst. GmbH	Germany	99.91%	Insignificant
Banque Internationale à Luxembourg S.A.			
Audit-Trust S.A.	Luxembourg	89.93%	Insignificant
BIL Trust Ltd	Channel Islands	89.93%	Insignificant
Compagnie Financière BIL S.A. & Cie S.e.c.s.	Luxembourg	89.93%	In liquidation
Koffour S.A.	Luxembourg	89.93%	Insignificant
Lannage S.A.	Luxembourg	89.93%	Insignificant
Private II Wealth Management S.à r.l.	Luxembourg	89.93%	Insignificant
Valon S.A.	Luxembourg	89.93%	Insignificant

Note:

(1) Despite the ownership percentage, Precision Capital does not exercise control or joint control over EFA Partners S.A. or European Fund Administration S.A. These two companies are thus considered as associates over which Precision Capital exercises a significant influence and are equity reported.

Note 41 – Main changes in the scope of consolidation

As described in Note 1, KBL (Switzerland) Ltd and its subsidiary Privagest SA were transferred from KBL European Private Bankers S.A. to Banque Internationale à Luxembourg (Suisse) S.A. on 31 October 2015. Further to the transfer, KBL (Switzerland) Ltd merged with Banque Internationale à Luxembourg (Suisse) S.A. Privagest SA entered in Banque Internationale à Luxembourg S.A. consolidation scope.

COMPANIES FULLY CONSOLIDATED FOR THE FIRST TIME

COMPANY	COUNTRY	CAPITAL HELD	SECTOR
Banque Internationale à Luxembourg S.A.			
Red Sky SA	Luxembourg	89.93%	Other – financial
Privagest SA	Switzerland	89.93%	Management (Funds, Pensions, Portfolios)
KBL European Private Bankers S.A.			
Brown, Shipley & Co. Limited			
Hampton Dean Limited	United Kingdom	99.91%	Other – financial
Hampton Dean Holdings Limited	United Kingdom	99.91%	Other – financial

COMPANIES NO LONGER FULLY CONSOLIDATED

COMPANY	COUNTRY	CAPITAL HELD	SECTOR
KBL European Private Bankers S.A.			
KBL Immo S.A.			
Centre Europe S.A.	Luxembourg	99.91%	Real estate
KBL (Switzerland) Ltd	Switzerland	99.91%	Bank
Privagest	Switzerland	99.91%	Management (Funds, Pensions, Portfolios)
Vitis Life S.A.	Luxembourg	99.91%	Insurance
Data Office	Belgium	99.91%	Other - financial

Note 42 – Non-controlling interests

Non-controlling interests (hereunder 'NCI') recognized in the Group Statement of Financial Position relate to the following two subsidiaries:

- NCI in BIL (10.07%)
- NCI in KBL (0.09%)

These NCI result from the two business combinations described in Note 1.
NCI in BIL are almost exclusively held by the Grand Duchy of Luxembourg.
Other NCI, both in BIL and in KBL, are held by private investors.

Impacts of NCI on the Group financial position can be further disaggregated as follows:

(in EUR thousands) 31/12/2015	TOTAL	Attributable to Precision Capital	Attributable to the non-controlling interests in BIL	Attributable to the non-controlling interests in KBL
Consolidated income statement – Profit after tax	106,170	98,666	7,365	138
Total comprehensive income	51,959	48,756	3,055	148
Consolidated balance sheet – Total Equity	2,428,513	2,296,034	131,598	882

In 2015, dividends paid to NCI amounted to EUR 5,512 thousand for BIL and to EUR 58 thousand for KBL.

For further financial information on BIL about assets, liabilities, profit or loss and cash flows, please refer to the Annual report on BIL's website (www.bil.com).

For further financial information on KBL about assets, liabilities, profit or loss and cash flows, please refer to the Annual report on KBL's website (www.kbl.lu).

Note 43 – Events after the balance sheet date

There was, after the closing date, no significant event requiring an update of the provided information or adjustments in the consolidated accounts as at 31 December 2015.